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Thesis

THE UNITED STATES SILVER PURCHASE POLICY

by

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CHAPTER I

THE SUBJECT OF THE THESIS

I THE SILVER PURCHASES

For over seven years it has been the policy of the Federal Government to purchase vast quantities of silver for addition to its monetary stocks. From 1933 through June of 1940, government acquisitions of silver amounted to more than two and one third billions of fine ounces. The government has purchased all the current domestic silver offered, at prices averaging forty-one per cent above the market. This market level has been unusually high, stimulated by the artificial demand.

Not all the silver acquired, however, was bought above the market price. About four fifths of all the silver purchased was foreign metal bought at approximately market prices. This silver came from all over the world with largest portions originating in Canada, China, India, and Mexico. A small fraction of the silver, perhaps one twenty-second, was purchased at 50.01 cents an ounce. This was the nationalized silver.

The money spent for the silver, more than one and a third billion dollars, would liquidate Boston's 1936 debt ten times.[1]

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1 Statistical Abstract of the United States for 1938 (Washington, D.C.: United States Government Printing Office, 1940), p. .

It would be enough to run the Government Printing Office at its present cost for over 360 years.[2] The Public Health Service could continue on this amount for 130 years at its present cost.[3] The monetary value of this tremendous silver hoard, arbitrarily set at $1.29 an ounce, is even greater, being about 2.4 times its cost value.

This thesis proposes to investigate the policy which has brought about this colossal store of the white metal. The genesis of the silver movement, its basic premises, its suppositions, and its actual results are to be examined in the chapters that follow.

II THE SPECIAL INTEREST OF THIS SUBJECT

The cost of the silver program can hardly be expected to excite wonder in this era when ten-place numbers are commonplace. There are, however, some unusual features connected with the policy. For one thing, it has recieved more nearly universal censure from financiers and economist than have most other recent governmental projects. Also, it was apparently forced upon an otherwise independent and powerful Administration. Further, it is a rather unique p olitico-economic development in that it furnishes illustrations of a wide variety of the shortcomings of American democracy. A person, learning of the United States only through its policies in connection with silver, might well marvel at the Country's

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2 Ibid., pp. 171,75.

3 Ibid., pp. 176,77.

continued existence.

The present silver policy well exemplifies the manner in which sound principles of economics are scrapped for the popular, vote-getting fallacies. An examination of the topic serves as a case-study of the manner in which the whole can be weakened by the determined efforts of a minority. At this particular moment, when there is unusual consciousness of the need for making the nation strong, more attention can well be given to the advice of the economist. In the past decade, despite the warnings sounded by nearly every economist of repute in the country, the "silver debacle"[4] was perpetrated. It has added to the widespread monetary dislocations, and it may well have further depreciated the position of silver in the world.

III ORGANIZATION AND METHOD

The silver movement to be properly understood, needs to be viewed within its proper context of history. It is not an isolated phenomenon, but rather it is an occurrence entwined in a multiplicity of monetary and economic developments. Because of this the following three chapters, II, III, and IV, consider the background and genesis of the movement and the world position of silver.

In Chapter V are described the World Monetary And Economic Conference and the Legislative and Executive action of 1933.

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4 See Ray B. Westerfield, Our Silver Debacle (New York: The Ronald Press, 1936).

Chapter VI gives the silver legislation of 1934 and in Chapter VII the actual manner in which the silver policy was executed in 1934 and 1935 is discussed. Chapter VIII treats of the effects the United States silver purchases had on foreign countries.

In the development of the silver policy after 1936, the weak character of its legislative opposition and the compromise of June-July, 1939 are of chief importance. Chapters IX and X describe the events of these years. Finally, in Chapter XI an attempt is made to evaluate the movement. Its claims and actual results are more systematically treated in this final section than elsewhere.

In the main, the presentation is historical. The basis of the thesis rests on a study of New York Times and Congressional Record reports. As the bibliography and footnotes indicate, diversified government documents and studies have also been used. In the development of the thesis, statistical treatment is employed in so far as it is feasible. Tables and analysis charts are included in the appendix.

CHAPTER II

SILVER IN THE UNITED STATES

I BIMETALLISM

The story of silver and American politics begins in Colonial days. When specie was minted, it was silver. The Pine Tree Shilling of Massachusetts is an example. Silver coinage was well in keeping with colonial culture, for Spanish silver money, especially the milled dollar or piastre, was the common coin of that period.[1] Likewise it was not a break with custom when the Congress of the Confederation selected the silver standard in 1786.[2] While the Confederation's silver dollar was never coined, there being no mint then, it does indicate the popular favor of the white metal.

In 1792, the majority of the statesmen, as well as the masses, still wanted silver. Alexander Hamilton, however, had a predilection for gold. In the spirit of compromise, the new Republic adopted bimetallism.[3] Actually the will of the people prevailed, for their 15 to 1 ratio undervalued gold.[4] As a

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1 Simon L. Adler, Money And Money Units of the A merican Colonies (Boston: P rivately printed, 1900), pp. 7-13.

2 Agnes F. Dodd , History Of Money In The British Empire And The United States (New York: Longmans, Green, and Co., 1911), pp. 255-56.

3 Anatol Murad, The Paradox of a Metal Standard (Washington, D.C.: Graphic Arts Press, Inc., 1939), pp. 36-7.

4. Annual Report of the Director of the Mint . . . 1931 (Washington, D.C.: United States Government Printing Office, 1931), p. 128.

consequence silver monometallism was the de facto standard in the United States up to 1834.

At this point the mint ratio was altered to just over 16 to 1.[5] At this new ratio, thanks to happy circumstances, for about nine years both gold and silver circulated. Then, after this most unusual period, the commercial ratio of gold and silver changed. Gold discoveries and silver loans to India[6] tended to enhance the white metal and Americans forthwith found it profitable to export their silver coins. When the small change shortage became acute, Congress was forced to act on this, just as had P arliament years before.[7]

II THE DE FACTO GOLD STANDARD

If silver coins were exported because of their excess value, the practical thing to do was to reduce their fine content. Also, in order that the situation would not reverse itself with a resultant loss of gold, coinage would have to be limited. The Act of 1853 did just this, debasing fractional currency by about 7 per cent.[8] At 15 to 1 the silver would be retained.[9] No mention was made of the then-extinct silver dollar

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5 Slightly altered for standardization in 1837. Annual Report of the Director of the Mint . . . 1901, p. 420.

6 Annual Report of the Director of the Mint . . . 1893,22.

7 Murad, op. cit., pp. 32-5.

8 Annual Report of the Director of the Mint . . . 1901, loc. cit.

9 Value of silver in terms of gold did not advance beyond the ratio of 15.1 to gold, and in 1853 was at 15.33 to 1. Annual Report of the Director of the Mint . . . 1931, loc. cit.

because its loss did not occasion any great hardship.

So in actual practice bimetallism in the United States had passed, and its passing was fue to the same matter-of-fact necessity that had terminated it years earlier in England. The remaining loophole, p otential unlimited coinage of the silver dollar, was tacitly removed when routine monetary legislation in 1873 omitted it.[10]

Bimetallism was brought to an end because it would not function. Theoretical reasoning was lacking, however, so that the real implications of its denouement were not generally realized. This failure to comprehend the situation facilitated the silver movement of the last quarter of the century.

III THE MOVEMENT FOR BIMETALLISM

After 1872 silver decreased in value for a variety of reasons. L ed by the German example,[11] many countries demonetized silver.[12] Indian imports were low, and the production of silver both in the United States and in the world as a whole increased sharply.[13] At the same time gold production decreased.[14] The result of this change in the relative values of the two metals was that producers of silver, finding their revenues im-

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10 Director of the Mint . . . 1901, loc. cit.

11 Annual Report of the Director of the Mint . . . 1893 (Washington, D.C.: United States Government Printing Office, 1893), p. 23.

12 See infra, pp.

13 During 1870-1880 silver production increased in the United States by 150 per cent; in the world, by 135 per cent. Director of the Mint . . . 1901, op. cit., pp. 52-53.

paired, would have been most happy to turn over their product to the Mint at the old ratio of 16 to 1.

At the same time that silver interests were suffering, business in general was being afflicted by the long depression of 1873. This furnished an ideal background for political opportunists. Cheap money was demanded for liquidating the debts contracted during the preceding period of prosperity and high prices. Sluggish circulation of money, a result of the depression, encouraged the popular idea that a dearth of money had brought on the economic break-down. Silver coinage at 16 to 1, now that its commercial ratio was steadily declining,[15] could satisfy both the public's desire for cheap money and the silver producers' demand for relief. Producers of the white metal were not at all reticent in pointing this out.

By 1878 the silver coalition had mustered sufficient strength to force the passage of a compromise measure, the Bland-Allison Act.[16] It directed the Secretary of the Treasury to purchase silver bullion from time to time at its market price to the extent of from two to four billion dollars worth each month. As fast as purchased it was to be coined into standard silver dollars of 412.5 grains, .900 fine.[17] Holders of the dollars

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14 During 1870-1880 gold production in the world decreased by nearly 18 per cent. Loc. cit.

15 Average annual ratios from 1871 to 1879, beginning with 1871, were: 15.57, 15.63, 15.93, 16.16, 16.64, 17.75, 17.20, 17.92, and 18.39. Director of the Mint . . . 1931, loc. cit.

16 Director of the Mint . . . 1901, op. cit., p. 420.

17 This is the ratio established in 1837 of 15.988 to 1. Loc. cit.

might exchange them for certificates against which the Treasury would preserve the coins. Full legal tender was established for silver dollars, except in cases where contracts should stipulate to the contrary.[18] Certificates, while not expressly made legal tender, were to be "receivable for customs, taxes, and all public dues . . ."

The Act also provided for an international conference to work for international bimetallism.[19] While few people believed the system could be used in one country alone, it had not yet been proved impracticable on an international basis. In fact, some university men upheld the thesis that international bimetallism would function with less fluctuations in values than would monometallism.

Enacted through compromise, the Bland Allison Act pleased neither the conservative elements nor the silver interests. The patrons of the white metal grew stronger and were able to secure the more favorable Sherman Act in 1890, which was essentially another compromise.[20] Under its provisions 4,500,000 fine ounces of silver were to be purchased each month at a price not in excess of a dollar for 371.25 grains. It was expressly ordered that payment for the silver should be made in Treasury notes redeemable on demand in coin. It did not specify whether

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18 Statutes of the United States of America, 2nd Session, 45 th Congress (Washington, D.C.: United States Government Printing Office, 1878), pp. 25,26.

19 Loc. cit.

20 Dickson H. Leavens, Silver Money (Bloomington, Indiana: Principia P ress, Inc., 1939), p.41.

the coin should be gold or silver.[21] Until July 1st, 1891, two million ounces a month were to be coined into standard silver dollars. After this date, coinage would be continued only as redemption of the treasury notes might require.[22]

Cleveland was elected president in 1892 and stepped into the "endless chain" situation with its threats to completely liquidate the gold reserve. Calling a special session of Congress in 1893, he secured repeal of the Act.

Dissatisfaction on the part of the Populists and conservatives continued.[23] The presidential campaign of 1896 came to be its focal point. While both platforms incorporated planks favoring bimetallism, the more conservative Republicans conditioned theirs on international acceptance of the standard.[24] Despite the colorful "cross of gold" and "crime of '73" catch words, the election proved a decisive victory for McKinley and the sound money forces. With the defeat of Bryan passed the first silver movement.

Under the two measures the country acquired a rather large amount of silver. In the twelve years of the Bland-Allison Act, purchases aggregated over 291 million fine ounces at an average cost of $1.058 per fine ounce.[25] The Sherman Act

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21 Statutes of the United States of America, 51st Congress 1st Session (Washington, D.C.: United States Government Printing Office, 1890), pp. 289-90.

22 Loc. cit.

23 Leavens, op. cit., 60.

24 Murad, op. cit., p. 106.

25 See table VI, Appendix.

increased the inflow by over 168 million ounces to make an aggregate amount of 459,946,700.09 fine ounces.[26]

There was an international aspect of the silver movement which should be noted in passing. Pursuant to the Bland-Allison Act, the United States arranged for a world monetary conference which was held in Paris in 1878. All of the principal nations attended except Germany,[27] who evidently did not care to discuss her silver dumping program.[28] France was characteristically conservative, and England, while she was anxious for stabilization of her ratio with India, was not at all disposed to do anything herself.[29]

A second and a third conference were held in 1881 at Paris, and in 1892 at Brussels.[30] Both were opened in an optimistic tenor, and both ended in utter failure.[31]

Silver could excite little genuine enthusiasm abroad as its price continued to fluctuate widely and steadily sag. Despite the magnitude of the American purchases, the value of the white metal continued its downward course, begun in the early 'seventies.[32] For instance, the average price of the Sherman

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26 Loc. cit.

27 Francis A. Walker, International Bimetallism (New York: Henry Holt And Company, 1896), p. 191.

28 Director of the Mint . . . 1901, op, cit., p. 419.

29 Walker, loc. cit.

30 Ibid., pp. 194, 224.

31 Ibid., pp. 196, 229-30.

32 See Figure 1, Appendix.

purchases amounted to only 92.44 cents an ounce. This declining trend was to continue until the stimulus of the World War of 1914.

Between 1900 and the War there was a lapse in the efforts of the silver enthusiasts. Prices of silver were tolerable, fluctuating between sixtey-seven and fifty-two cents.[33] Also, the companion metals, copper, lead, and zinc, were bringing good prices.[34] In fact, prices in general had risen steadily after 1895.[35]

IV SILVER IN THE WORLD WAR

The production of gold between 1896 and 1910 had increased by 135 per cent while that of silver advanced a scant 41 per cent.[36] The ratio of production was therefore favorable to silver in terms of gold and at the same time the more than doubled annual increments of the yellow metal were an important cause in the higher level of prices. Even with the World War, the silver output did not surge ahead,as did the production of most other metals. Mexican unrest[37] and the fact that costs at first rose faster than the silver prices were the chief reasons for the absence of marked accelerations in the metal' s output.

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33 Loc. cit.

34 Statistical A bstract, op. cit., p. 705.

35 Ibid., p. 314.

36 Ibid., p. 728.

37 Westerfield, op. cit., p. 14.

It is evident that times were not at all unfavorable for silver. Favorable Indian balances of trade and Chinese prosperity resulted in heavy Far Eastern imports of the metal.[38] At the same time industial consumption in the United States increased greatly.[39] The use of silver coins by the huge armies in the field required greater coinage of silver.[40] The net result of these factors was abnormally high silver prices after 1915. With these high prices, strangely enough, came an outright subsidy to United States silver interests.

The high price of silver caused a run on the Indian Treasury for the conversion of rupee notes into silver.[41] The British Indian Government raised the exchange ratio of the rupee, but the situation could not be sufficiently corrected to completely halt the treasury drain. The United Statesheld sufficient silver in its monetary stocks to replenish the Indian reserves. Furthermore, the silver holdings there were idle and useless. Selling them to England for Indian shipment would furnish an admirable method of liquidating them.

To this end, the "Pittman Act" of April, 1918 was passed.[42] Under section one, the Secretary of the Treasury was authorized

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38 Handy & Harmon, Annual Review of the Silver Market for 1922 (New York: privately printed, 1923), p. 3. Murad, op. cit., pp. 111-12.

39 Director of the Mint . . . 1931, op. cit., p. 40.

40 Mura d, loc. cit.

41 Ibid., pp. 113-14.

42 As is emphasized in Leavens, Senator P ittman was not the author of this bill which bears his name. Leavens, op. cit., p. 146.

to melt up and sell as bullion up to 350 million silver dollars. Section two, however, required that all silver dollars melted be subsequently replaced by similar dollars minted from United States silver. In addition, it specified that this silver should be bought at the price of one dollar a fine ounce.[43] According to a speech by Senator Pittman, this part of the Act had to be railroaded through Congress.[44] Thus the government was hoodwinked into subsidizing the white metal at the high point of its prosperity.

There were available in the Treasury on June 30, 1918 nearly 422 million silver dollars in addition to over fourteen million ounces of silver bullion.[45] While the Act permitted melting 350 million of the dollars, only $259,121,554 were actually melted. From this operation, 200,032,325.64 ounces of silver were obtained for sale to the British.[46]

Some attempts were made to repeal the purchase clause. The most serious opposition came toward the end of 1919 from Representative McFadden. He advocated not only striking out the purchase clause, but he also desired a reduction in the fineness of subsidiary silver coins.[47]

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43 Statutes of the United States of America, 65th Congress 2nd Session, 1918 (Washington, D.C.: United States Government Printing Office, 1918), pp. 535-36.

44 Westerfield, op. cit., pp. 21-22.

45 Director of the Mint . . . 1918 (Washington, D.C.: United States Government Printing Office, 1918), p. 143.

46 The melting was carried on during the period, April 24 1918 to May 10, 1919. Figures appear: Director of the Mint . . . 1919 (Washington, D.C.: United States Government Printing Office, 1919), p. 120.

The A ct remained as passed, however, and the Treasury Department began its purchases in May of 1920.[48] The price of silver at that time dropped to below a dollar and it continued to drop. The purchases were continued for about three years when the mint announced their conclusion in March of 1923.[49] Silver producers expected an immediate drop in the price of the metal. To avert this they advocated that a loan of 200 million ounces of the metal be made to China.[50] Nothing came of the proposal and, to the surprise of almost everybody concerned, silver prices did not slump. Because of the special price arrangement of a dollar an ounce, the silver-mine owners obtained a bonus of about $58,169,950 more than the amount comparable sales would have brought on the open market.

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47 Engineering And Mining Journal, 109:4, Jan. 24, 1920.

48 Director of the Mint . . . 1920 (Washington, D.C.: United States P rinting Office, 1920), p. 8.

49 Handy and Harmon, Annual Review of the Silver Market for 1923 (New York: privately printed, 1924), p. 3.

50 Ibid., p. 4.

51 Westerfield, op. cit., p. 18.

CHAPTER III

THE WORLD-POSITION OF SILVER

Due to the scarcity of gold prior to the Spanish pillaging of the New World, silver was for a long time the principal and popular form of currency. After the influx of gold, both metals circulated. Becasue of coinage, it was necessary to establish mint ratios between the two media. These ratios often differed from country to country and were also usually at variance with the prevailing commercial ratio. A s a result, only rarely did both metals circulate simultaneously in the same country. In addition, these attempts to preserve two standards led to chronic mutilation of the coinage. Well-informed people were sort of boot-leg mints, ready to clip or sweat away the amount of metal by which the coin was undervalued.[1]

I THE PASSIVE DEMONETIZATION OF SILVER

It so happened that after 1696 England undervalued her silver coinage. As a consequence, she lost it. Only gold and the few mutilated silver coins remained. After a time the gold, through custom, came to replace silver in the minds of the people as the popular money. When treatened with loss of the yellow metal in favor of light-weight silver coins, England acted to

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1 Murad, op. cit., pp. 1-29. Also, Shaw, The History Of Currency (L ondon: Clement Wilson, 1896), pp. 219-32.

retain it. Deviating from the customary practice of trying a new mint ratio, she first limited the legal tender power of silver in 1774[2], and then temporarily suspended its coinage in 1798.[3] Finally, in 1816,[4] to keep the white metal from being sold to the higher bidders abroad, she debased its coinage. The rise in the value of silver in terms of gold, an event quite beyond the nation's control, had forced her to reduce the silver currency to token money in order to retain it.

Gold thus came to be the standard money in England through a series of accidents beginning with the incorrect ratio of 1696. Quite by chance, this occurred in the country which came to dominate world commerce in the nineteenth century. These accidental and coincidental circumstances constitute the primary cause of silver's present insignificant monetary rôle.

II THE A CTIVE DEMONETIZATION OF SILVER

In 1871 German commercial interests were able to induce their country to facilitate their commerce by adopting the standard of the world's foremost trader.[5] This demonetization of silver encouraged others. Sales of the demonetized metal depressed the value of silver and caused sever market fluctuations. On account of this, the Latin Monetary Union was virtually forced into suspension of silver currency in 1874.[6] The

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2 Murad, op. cit., p. 31.

3 Ibid., p. 32.

4 Ibid., pp 31-4.

5 Director of the Mint . . . 1893, op. cit., p. 22.

Scandinavian countries adopted gold in 1873.[7] Austria-Hungary, Russia, and Japan were among the countries choosing the gold standard in the last decade of the century. By 1900, all commercially important countries together with most of their satellites were on the full gold standard or a related arrangement.[8]

At this period, around the turn of the century, Chile, Costa Rica, Peru, the Dominican Republic, P anama, Mexico, El Salvador, Venezuela, and Brazil all established themselves on some sort of a gold arrangement.[9] Argentina and Uruguay had already adopted gold in 1875 and 1876.[10] The colonial possessions, India, the Dutch East Indies, French Indo-China, and the Philippines were on gold exchange standards.[11]

III RECENT STATUS OF SILVER

So universal was the trend to gold that by 1933 only four countries in the entire world were on even a slightly modified silver standard.[12] Hong Kong was on a technically perfect silver standard. China had only a few restrictions on

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6 Ibid., pp. 21-23, and Director of the Mint . . . 1901, op. cit., p. 420.

7 Loc. cit.

8 Loc. cit.

9 Loc. cit.

10 Loc. cit.

11 Loc. cit.

12 Herbert M. Bratter, The Monetary Use Of Silver In 1933 (Washington, D.C.: United States Government P rinting Office, 1933), p. 1.

the movement of silver. Macao and Tibet could also be classed as on that standard.[13] Of these four nations, only China has been of commercial importnace. Her gross commerce amounted to only 2 or 3 per cent of the world's total international trade during the last few years.[14]

It is true that silver has been widely used as subsidiary coinage. In times of low silver prices there is a trend toward more extensive use of the metal, while high prices encourage the substitution of cheaper metals and, where practical, paper. So, after 1926, there was clearly the beginnings of a return to silver as subsidiary coinage.[15] Perhaps the people of the world had not become sufficiently accustomed to the cheaper media of the early 'twenties. Also, at the same time that substitutes for silver were being employed, many currencies were simultaneously being ruined through inflation. An association between the two occurrences might well have been formed in the popular mind. However, the nascent return to silver was quickly ended by high silver prices in the 'thirties.

In general, we may say that demonetixation has prevailed since the World War of 1914.[16] Mr. Bratter lists thirty-three

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13 Loc. cit.

14 See table XI, Appendix.

15 Bratter, op. cit., pp. 57, 61, 80-81.

16 From 1919 to 1929, the proportion of silver to gold in the central bank reserves of the world declined by 41 per cent. Y.S. Leong, Silver (Washington, D. C.: The Brookings Institution, 1934), p. 146. Calculations from data furnished in this reference.

countries which reduced the fine content of their silver coinage between 1919 and 1933.[17] Canada, France, Germany, Italy, Japan, and the United Kingdom, are included in the list.[18] Belgium, Denmark, and Turkey, with all their colonies, and Finland, Norway, and France discontinued the use of silver altogether for at least a period of years.[19] From 1920 to 1933 over 541 million fine ounces of demonetized silver entered the market.[20] Over 155 million ounces of this came from British India.[21]

IV EFFECTS OF THE DEMONETIZATION

These sales had a double effect on the market. They greatly increased the supply of the white metal while at the same time they marked a curtailment of its potential demand. The ensuing lack of silver as a circulating medium would do a great deal to break the custom upon which rested the metal's monetary demand.

Under prevailing conditions of the past, however, this would have had only a slight effect on the market. Throughout the nineteenth century and as late as the third decade of this century, the Far Eastern demand had always been recognized as the permanent, long-run causative factor in the price of silver.[22] The correlation of this factor and the price of the

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17 Bratter, op. cit., p. 6.

18 Loc. cit.

19 Loc. cit.

20 Loc. cit. Also, see table X, Appendix.

21 Loc. cit.

white metal is evident as Figure 1 in the Appendix illustrates. This, in light of the fact that Indian purchases are very dependent upon the monsoon and resultant degree of agricultural prosperity, might be valid proof. (The development of the monsoon would hardly be dependent upon the price of silver.)

However, be that as it may, it is of greater importance here to note what the price has been. I t is seen by referring to Figure 1 that the price fluctuated around sixty-five cents an ounce from 1921 through 1926. Many people came to feel that the price was permanently stabilized at that figure.[23] In 1927, though, it became all too apparent that the price had started on more than a temporary decline in the preceding year. Sales of India's demonetized silver were generally believed to be the principal cause of the slump. The populace of India were still absorbing the white metal, however, and China, in spite of the dislocations of warfare, bought heavily at times.[24]

Once the break in the market did occur, the situation was aggravated by the continued heavy production of silver by United States mines. In this country silver is normally produced as a by-product of the mining of copper, of lead, and, to a lesser extent, of zinc. Between 1925 and 1930 about 80 per cent of our silver production was derived in such a manner.[25]

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22 This ovservation is based upon reading many government documents and the Annual Reviews of Handy and Harmon.

23 Handy & Harmon, Annual Review of the Silver Market for 1926 (New York: privately printed, 1927) p. 6.

24 Handy and Harmon's Reviews for years 1926-30. Also, Director of the Mint . . . 1931, op. cit., p. 115.

Because of this, in 1926 and the three following years, the United States' output of the white metal aggregated around 243 million fine ounces. This is over 93 per cent of the amount produced during the preceding period of four years when silver prices were in the neighborhood of sixty- five cents.

The fact that so much of our silver production is secondary to the production of other metals also explains why its producers raised no hue and cry before the depression. Up to the crash, the major metals, copper, lead, and zinc, were brining such favorable returns that silver revenues were only so much added profit. However, after 1929 conditions were altered. Then Handy and Harmon, along with other experts, sought to show that silver's plight was no worse than that of certain other commodities, real estate, for example.[26] Despite this, the anguished cries of the silver interests resounded in the halls of Congress to the end that "something be done for silver."

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25 Leong, op. cit., p. 73.

26 Handy & Harmon, Annual Review of the Silver Market for 1932 (New York: privately printed, 1932), p. 6.

CHAPTER IV

THE PRESSURE FOR SILVER LEGISLATION

I CHIEF SOURCES OF THE PRESSURE

While pressure to do something for silver was not limited to the United States, the subsidization of the metal received special attention in this country. One of the reasons, the most obvious, is found in the combination of regional representation in Congress, particularly in the Senate, and of the geographical concentration of silver mines. Eight western states, as Figure 4 shows, are the silver states. This means that twelve to sixteen senators, hopeful of re-election, are going to combine for silver regardless of personalities and party lines. Thanks to pork-barrel legislation and log-rolling, these senators are in a position to achieve a great deal more than either their number of the importance of silver to our economy would seem to warrant.[1]

In the House, where representation is based upon population, it is evident that the silver staes could hope to accomplish but little. Actually Californian congressmen have not been of noticeable significance to the white-metal cause.[2] Consequently, in the lower body there are only about a dozen out-and-out silver enthusiats. Of course, as will be developed, the silver men were aided by certain inflationists.

Another reason leading to the pressure in this country

is the concentration of ownership of world silver production in American interests.[3] As table VIII illustrates, over 60 per cent of the world's silver production in 1929 was controlled by United States capital. This situation, when combined with our highly-developed lobbying system, suggests the source of a major part of the drive behind the silver movement.

II THE SUGGESTED LOAN TO CHINA

In 1930, demands to "do something for silver" began to be heard in increasing volume and tempo. During the latter part of the year the Senate Committee on Foreign Relations announced that it was considering a plan for loaning silver to China. At that time it was advocated as a means of reestablishing peace in the Orient.[4]

At about the same time, October, the press carried accounts of Mr. P. M. W. Linebarger's plans for securing such a loan here.[5] He was described as an American financial advisor to the Nanking Government. When he arrived, however, both his claim

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1 United States production of silver in value during 1925-29 amounted to only .6 of 1 per cent of the value of all metals produced in the United States during that period. Leong, op. cit., p. 97. Also, silver amounted to only .1 of 1 per cent of the value of all commodities exchanged in 1926. Leong, op. cit., pp. 94-5.

2 This is probably due to the relative insignificance of silver to the diversified economy of the State. Probably no large group of voters feel that the metal is of much importance to their welfare.

3 Leong, op. cit., pp. 68-71.

4 New York Times, Oct., 9, 1930.

5 Ibid., Oct. 17, 1930.

for China's desire for such a loan and his personal authority were denied by Finance Minister Soong.[6]

The idea of a silver loan was revived in the early part of 1931. In February the Foreign Relations Committe considered the formation of an international silver pool for extending from 200 to 300 million ounces of silver to China.[7] This was to be withdrawn from the 495 million ounces held in the United States Treasury. According to the plan, American producers would be called upon to replace the amount withdrawn.[8]

Indications were lacking that China was eager for a loan and there was no valid reason for supposing that she would prefer the loan to be made in silver. If it were for foreign purchases, then gold would be the necessary medium of purchase. However, the silver interests evidently were bent on disposing of some of their excess product through that outlet, and in May of 1931, Senator Pittman went to China for an investigation.[9] Perhaps he hoped to show the Chinese their dire need for the loan.

III SILVER, THE CAUSE OF THE DEPRESSION

In 1930, inflation of the currency was neither popular nor widely approved. However, it evidently was felt by the silver enthusiasts that the best way to get something done for

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6 Ibid., Oct. 31, 1930.

7 Ibid., Feb., 21, 1931.

8 Loc. cit.

9 Ibid., April 26, May 30, 1931.

the metal would be to publicize its ills as being the cause of the depression.

Senator Pittman fired the opening gun on this matter in a statement issued in November of 1930.[10] He drew several questionable conclusions from a series of incorrect propositions. For example:

> Nine-tenths of the princip al governments of the world, including India and China, and containing one half of the population, have substantially no money except silver.[11]

The statement is obviously in error. India should not have been included for she had a great deal of non-silver money, and paper was steadily replacing the specie.[12] At that time, India was trying to get rid of a good part of her excess silver. In as much as he denounced the Indian sales at another point, the Senator must have been aware of this fact.

The statement was more true in regard to China, who was then on the silver standard. However, the implication that low-priced silver was hurting the Chinese was in error as is indicated in section one of chapter VIII, below, and by table XI of the Appendix. Also, as the Senator could have learned from any number of Government publications, China's population of some 466.8 millions is only about one fifth of the world's

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10 Ibid., Nov. 25, 1930.

11 Loc. cit.

12 Bratter, op. cit., p. 40.

13 Annual Report of the Director of the Mint for . . . 1940 (Washington, D.C.: United States Government Printing Office, 1940), p. 95. The Commerce Yearbook for 1930 (Washington, D.C.: United States Government Printing Office, 1930), p.13 cites the population as high as 482.8 millions.

total.[13] It hardly seems reasonable that the Senator included Tibet, Macao, Afghanistan, and Ethiopia in the "principal governments of the world."

He spoke about the great loss in world trade because of the drop in the value of the Chinese standard metal. Yet between 1926 and 1930, Chinese imports amounted to less than 3.4 per cent of the total for the world.[14] However, if his thesis could just be repeated often enough, it might gain public acceptance.

The depression idea was supported by Francis H. Brownell, Chairman of the Board of the American Smelting and Refining Company. He stood with those advocating international cooperation.[15] His suggestion was that the governments of the United States; England, including India; and France, including Indo-China, should set some price at which they would stabilize silver. Fifty cents a fine ounce was the price he mentioned by way of an example. Until the price reached this figure and whenever it might later fall below it, the countries would purchase as heavily as their laws would permit. Whenever the price went up to fifty-five cents, then such selling nations as India might dispose of limited quantities.[16] In the light of experience, it is evident that such an agreement could not have been achieved.

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14 Statistical Abstract . . . 1938, op. cit., pp. 460,64.

15 New York Times, Jan. 19, 1931.

16 Loc. cit.

IV BRITISH SUPPORT

Among the Englishmen who gave credence to the spposedly causal connection of silver to the depression was J. F. Darling. Mr. Darling had recently retired from an eleven-years' career in Indian banking and was at this time a director of the Midland Bank of London. In a speech in early 1931 he exhorted the world to give back to silver its "rightful time-honored position." He pointed out how the evil decline of the metal was permitting China to become a producing competitor in the world's markets. It is interesting to note that while Senator Pittman was asking for high-priced silver for the good of China, Mr. Darling was asking for it for just the opposite effect.

Mr. Darling's plan for the rehabilitation of silver included the creation of a super-bank to administer the United Kingdon's gold and silver reserves. Here he prescribed a new money of account, the "rex," to awaken and unify the Empire. The new system would be bimetallic with one "rex" equal to 113 grains of silver. He hinted that this 20 to 1 bimetallism would bring France and the United States into the British orbit.[18]

Two others deserve special mention in connection with this p hase of the movement for the relief of silver. Colonel F. L. Harding, former editor of the China Press, continually deplored the demonetization of silver.[19] J. B. Thomas, an owner

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17 Ibid., Jan. 28, 1931.

18 Loc. cit.

of important British coal mines, pointed to the low price of silver as the ruin of the British and American cotton industries.[20] So long as China manufactured textiles for her own consumption and for that of her neighbors, the Lancashire mills lost a substantial part of their market. Because of this, the English mills reduced their American cotton imports.

V PETITIONS FOR A CONFERENCE

Notwithstanding the usual failure of such international gatherings, the silver enthusiasts kept aski ng for a world conferance. Usually they included monetary matters in general, probably as a bid for wider support. The requests came from the silverites, however, and silver received the emphasis.

In February of 1931 a subcommittee of the Senate Committee on Foreign Relations petitioned President Hoover to call one.[21] Two months later, Senator Pittman, in a statement to the press, purported to show the need for such a parley.[22] In June the silver-state senators joined with producers in petitioning President Hoover to call the conference.[23] They scoffed at the value of informal discussions which the Administration had previously suggested. In this manner first one, then another, carried on the barrage. Senator Pittman was particularly dogged in his attempts. He constantly shifted the

20 Ibid., January 28, 1931.

21 Ibid., February 12, March 3, April 4, 1931.

22 Ibid., April 26, 1931.

23 Ibid., June 1, June 24, 1931

blame from Britain to the United States for the failure to call the conclave.[24]

In England, J. F. Darling, among others, demanded a conference.[25] Mexico, the largest producer of the white metal and the country most dependent upon it for private and public revenue, also wanted an international parley.[26]

VI THE OPPOSITION

Even among the friends of silver, however, the desire for a convention was not unanimous. Sir J. A. Salter in Great Britain, like many other Englishmen, realized the first need was to work for the rehabilitation of business in general.[27] In this country the silver brokers, Handy and Harmon, were not in favor of special aid to silver because of their fear of the long-run effect of creating artificial conditions for the commodity.[28] The majority of London bankers were opposed for comparable reasons.[29] The National City Bank and the Bank of America similarly opposed the proposal.[30]

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24 Ibid., Dec. 4, and 11, 1931, for example.

25 Ibid., June 9, 1931.

26 Ibid., June 1, 1931.

27 Ibid., June 2, 1931.

28 Ibid., Jan.,3, 1932.

29 Ibid., June 2, 1931 and Jan., 4, 1932.

30 Ibid., May 4, 1931.

VII INDIAN SILVER SALES

A majority of petitioners in this country hoped to use the conference mainly as a means of halting the Indian silver sales. These sales, which were a factor in silver's low price, received a great deal of condemnation here.[31] Enough attention was called to them, in fact, to warrant a rather spirited rejoinder from Sir George Schuster, Finance Member of the Indian Government. In his budget speech of February 28, 1931, he pointed out that American producers were eager to curtail Indian sales while their own output should remain unrestricted.[32] He suggested that the Americans were ungrateful for the past magnitude of the Indian absorption of their metal.

VIII THE WAR-DEBT PROPOSAL

Another popular silver proposal was that debtor governments be permitted to pay their war debts in the metal. Four of our larger producers suggested it in June, 1931.[33] Senator Hayden offered a bill in May, 1932, for accepting payment in silver at a dollar an ounce if the nation so paying would agree to restore its silver coinage to .900 fine.[34] If this stipulation should not be met, settlement would be permitted at the

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31 This becomes apparent in the general reading of pro-silver speeches and literature of the earlier thirties.

32 Bratter, op. cit., p. 30.

33 New York Times, June 24, 1931.

34 Ibid., May 2, 1932.

rate of one and a half ounces per dollar, providing payment would be accompanied by a promise to debase silver no further. Representative Somers presented a parallel measure in the House.[35] Later Senator Hayden advocated the payment plans in a radio address over the N B C network.[36]

IX THE SOMERS AND PITTMAN BILLS

Of the many bills offered for doing something for silver, the Somers and Pittman proposals are most important. While neither were passed, they should be noted as manifestations of the specific hopes of the silver bloc.

The Somers Bill was reported favorably by the House Committee on Coinage, Weights, and Measures.[37] It directed the Treasury to accept up to $250,000,000 worth of silver bullion beginning at the time of passage of the measure. It would have established a monthly limit of forty million fine ounces. Superimposed upon this absolute minimum was an intricate series of price limitations. Prices were not to exceed forty cents per fine ounce during the first three months after passage, nor fifty cents and sixty cents per fine ounce, respectively, during the second and third periods. Thereafter, if the price had reached the sixty cents specified, it might be advanced by a half a cent a month until it reached seventy-five cents.

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35 Ibid., May 6, 1932.

36 Ibid., Dec., 27, 1932.

37 House of Representatives, Report No. 2186, Silver Bullion. (Washington, D.C.: United States Government Printing Office, 1933)

Thus if the full amount were purchased each month at the maximum price permitted, the purchases would extend over almost a year. There were a few other specifications as from what source the bullion might come. These were designed to prevent " hold-ups" and further demonetization.

Mr. Somers' optimism is evident in his provision which permits the sale of bullion when deemed necessary to preserve the stability of the price. The power to coin silver dollars from the acquisitions is purely discretionary with the Treasury Department.

The report did not end with the presentation of the bill. The views of Mr. Feisinger were included to explain that although the bill was reported favorably, the majority favored an alternative proposal. By way of introduction to this, Mr. Feisinger stated that the Committee was forced to believe it had found the basic cause of the dpression. As to what cause was established, he was anything but clear. However, this bill "which puts the United States Government, for the first time in history, in control of its economic welfare" was the remedy.[38]

Under the bill, the Secretary of the Treasury was to buy 150 million ounces of silver within four months and an additional 250 million ounces within twelve months of the act's passage. The acquisitions were to continue until a price of $1.29 per ounce was attained and stabilized. There were very complicated limitations governing the quantities to be acquired and the price

38 HR 14784 included in ibid.

to be paid. To start the program, $150,000,000 was to be appropriated. As silver was acquired, certificates were to be issued against it to cover subsequent purchases. Notwithstanding the confidence of the Committee, neither bill became law.

Another very much publicized scheme which similarly failed to open the treasury vaults to silver, was the Pittman Bill (S. 3606).[39] The fact that this plan called for the annual purchase of only 60 million fine ounces, approximately one eighth of the Somers Bill maximum and just over one seventh of the Feisinger limit, suggest that the Senator thought it might be enacted. The silver was to be paid for through the issue of certificates. Limitations were simple: current domestic silver was to be purchased not in excess of five million ounces per month, at the market price, providing it should not be more than ten cents an ounce above the average price for the preceding three months.

It became apparent that nothing for silver could be accomplished under the outgoing administration. This was reflected in the price of the white metal which still continued to fluctuate about low levels, and in December it registered its lowest monthly average. At that time it was only twenty-five cents a fine ounce.

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39 Senate Report, No. 843, Purchase Of Silver Produced In The United States With Silver Certificates. (Washington, D.C.: United States Government Printing Office, 1932)

among other things, the revaluation of both the gold and silver dollars. A 50 per cent devaluation limit was prescribed for the gold dollar, but for the silver, there was none. The section also allowed bimetallism (the unlimited coinage of gold and silver) at any ratio deemed advisable.[2]

Section forty-five of the Act authorized the acceptance of silver bullion in payment of foreign debts due the United States. Such silver might be accepted within six months of the Act's passage at a price of not more than fifty cents an ounce and up to an aggregate amount not in excess of $200,000,000. Against the silver so acquired, the Secretary of the Treasury was directed to issue silver certificates to the amount of debt the acquisitions liquidated. The Act further stipulated that these certificates might never by retired.

Under Section forty-five of the Act the United States received $11,367,412.18 worth of silver valued at the acceptance rate of fifty cents an ounce.[3] This, it is noted, was only about one seventeenth of the maximum quantity authorized. Arranged in decreasing order by the size of payment the countries paying in silver were Great Britain, Italy, Czechoslovakia, Finland, Rumania, and Lithuania, with Great Britain paying over ten million dollars worth of the total.

There has been but little mention made of the certificates clause and apparently the Treasury issued only $1,560,000

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2 Ibid., p. 53.

3 See table IX, Appendix.

in silver certificates against this silver. This was done in February, 1934 when 3,120,000 fine ounces were placed in the certificate reserve.[4]

II THE WORLD CONFERENCE

In the meantime p reparations had been in progress for the London Financial and Economic Conference which was to open discussions on June 12, 1933. In preparation for the Conference, a series of pre-conferences were held in Washington. In the course of these it became evident that while France and Germany would not actively oppose a small subsidy to silver, they were very definitely for a return to the gold standard.[4] On May 16, 1933 announcement was made of a meeting on silver attended by Canadian, Mexican, and United States experts.[5] After Canada dropped out of further discussions, Mexico and the United States continued. On the eighteenth, President Roosevelt and Mr. Pani of Mexico issued their joint statement.[7] Senator Pittman "clarified" it by stating that both countries were in favor of higher silver prices, stabilization of the prices with gold, and a greater use of the metal in central bank reserves. The joint statement had merely said in regard to silver that a "project of agreement" for stabilization of its

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4 United States Treasury Daily Statement, February 28, 1934.

5 New York Times, May 12, 1933.

6 Ibid., May 16, 1933.

7 Ibid., May 19, 1933.

price had been discussed.[8]

Chinese Finance Minister Soong joined with the President in saying that the price of silver "should be enhanced and stabilized,"[9] but in the light of the prevailing conditions in China it was evident that he did not mean for the price to be enhanced very greatly. The Japanese delegate, Ishii, was more careful. In his joint statement the "enhanced" was modified by "reasonably."[10]

On the day of the Chinese-American statement Senator Pittman announcedthat all nations consulted had agreed that (1) silver prices should be "reasonably raised and stabilized;" (2) the debasing and melting of silver coins should cease; (3) coins already debased should be restored in fineness as soon as practicable; and, (4), existing obstructions to the metal's free movement should be eliminated or lowered.[11]

A resolution giving explicit instructions for the silver question to the country's delegates was tabled on the advice of Economic Adviser Feis.[12] The Wheeler resolution, however, which urged the United States delegates to work for the remonetization of silver was adopted by the Senate on May eighth.[13]

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8 Loc. cit.

9 Loc. cit.

10 Ibid., May 28, 1933.

11 Ibid., May 20, 1933.

12 Ibid., May 18, 1933.

13 Ibid., May 9, 1933.

III THE CONFERENCE

The conference opened under a cloud. President Roosevelt's monetary policies had irked other nations, particularly France.[14] However, our delegates with their host of advisers plowed along as best they could under the circumstances. Senator Pittman, one of the six delegates, worked our some minor gold proposals.[15] Aided by his personal assistant Edward Bruce, San Franciscan lawyer and silver expert,[16] he strove mainly for silver resolutions.

On June nineteenth he offered a plan for building up the silver content of Central Bank reserves to 20 per cent of their total.[17] Sir George Schuster[18] pledged India's support to various Pittman silver proposals,[19] and Canada agreed to cooperate.[20] The Chinese expressed concern lest the price of silver be raised too much. In fact, they seemed to prefer to leave it at its present level.[21]

The conference had achieved harmony and progress was being made on both the gold and silver proposals when President Roosevelt exploded his famous message of July third on the gold resolution. He chided the conferees for their "artificial and

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14 Ibid., May 30, 1933.

15 Ibid., May 30, June 28, 29, 1933.

16 Ibid., May 31, 1933.

17 Ibid., June 20, 1933.

18 See supra, p. 31.

19 New York Times, June 27, 1933.

temporary" plan, and he said that

"The United States seeks the king of dollar which a generation hence will have the same purchasing power and debt paying power as the dollar we hope to attain in the near future." 20

The criticism came as a great surprise even to the United States delegation. The reaction of foreign delegations was first one of anger, then resignation. Yet, under these conditions the conference continued, and while very little was accomplished, something was done for silver. On July twentieth a subcommittee unanimously approved a general resolution on silver later adopted by the Conference at its final plenary session on the twenty-seventh.[23]

IV THE EIGHT NATION SILVER PACT

The general resolution to restore silver as subsidiary coinage in so far as p ossible and to refrain from further debasement of the coinage was eventually signed by sixty-six nations.[24] It carried a special sub-agreement, the "Eight-Nation Silver Pact." the pact was entered into by India, China, and Spain as holders of large reserves of silver, and by Australia, Canada, the United States, Mexico, and Peru as principal producers of the metal.[25]

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20 Ibid., June 28, 1933.

21 Loc. cit.

22 Ibid., July 4, 1933.

23 Leavens, op. cit., p. 249.

24 New York Times, July 27, 1933.

Under its provisions India agreed not to dispose of more than 140 million fine ounces of silver during the four year period beginning January 1, 1934. Besides this amount, she could transfer additional stocks for payment of war debts to the United States. Her aggregate disposals for the four years, however, were not to be over 175 million ounces a year, balances to be cumulative. A limit of fifty million ounces in any one year was also established.

China agreed to sell no silver from demonetized coins during the four years. The Country signed the agreement with an added reservation. If changes in the relative values of gold and silver adversely affected the Chinese people, contrary to the spirit of the agreement, then the National Government would act as it should deem appropriate.

Spanish disposals of the metal over the four-year period were limited to twenty million ounces, with a base of five and a maximum of seven million ounces a year.

The five producing signatories contracted to sell no government silver and to absorb, among them, thirty-five million fine ounces each year of the period. The silver thus absorbed did not necessarily have to be used for currency purposes so long as it was retained for the duration of the pact. A supplement of the pact allocated to the producing countries their respective shares of the amount they were to jointly ab-

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25 Silver, Memorandum of Agreement Between The United States of America, Australia, Canada, China, India, Mexico, Peru, and Spain, Executive Agreement Series, Number 63, 1933 (Washington, D.C.: United States Government Printing Office, 1933)

sorb. The United States undertook to withdraw 24,421,410 fine ounces a year; Mexico, 7,159,108 fine ounces; Peru, 1,095,325 fine ounces; Canada, 1,671,802 fine ounces; and Australia, 652,355 fine ounces.[26]

For a time it was doubtful whether Peru would ratify the agreement. Rumor had it that her quota was more than the Peruvian Government cared to withdraw.[27] On April 24, 1934, however, seven days before the amended deadline, the Country signified ratification by giving notice of affirmative action.[28]

A survey of the prior behavior of the signatories shows that none except the United States undertook either to abstain from desirable action or to undertake anything unusual. In the period of five years preceding March, 1932, India had disposed of only 127,581,564 fine ounces of silver.[29] The yearly average amounted to 25,500,000 ounces. The quota, therefore, permitted a margin of over 35 per cent beyond the average sales. In 1932, for example, India withdrew twenty-four million ounces.[30]

The Chinese Government had not sold silver and evidently had no intention of demonetizing any of its coinage silver.[31]

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26 Loc. cit.

27 Commercial and Financial Chronical, Vol. 138, April 14, 1934, p. 2508.

28 Executive Agreemnet Series, Number 63, op. cit., p. 12.

29 Bratter, op. cit., pp. 27-31.

30 Loc. cit.

While the idle silver stocks in the vaults of the Bank of Spain indicated a surplus of the metal there, Spain had not exported any.[32] In as much as the Country had failed to demonetize and sell in the past, even when the metal was bringing a high price, it would seem as if the limit of forty million ounces could hardly have been a hardship.

To consider the producing countries, Australia's quota was about 6.5 per cent of her 1932 production.[33] Australia had coined, however, an average of 260 thousand ounces in the five year period, 1927-1931.[34] Canada's quota amounted to a little over 9 per cent of her 1932 production.[35] Peru's annual commitmentwas only 10 per cent of her 1933 output, but nearly 16.5 per cent of the 1932 product.[36] However, the Peruvian Government had desired to issue more silver in 1932, and was only restrained by the Peruvian Central Bank.[37]

A similar situation prevailed in the case of the Mexican Government. Under the terms of the pact, that Government undertook to remove annually the equivalent of 10.4 per cent of Mexico's 1932 output. Yet, it had voluntarily withdrawn over three times that amount during the year immediately preceding

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31 Bratter, ibid., pp. 41-42.

32 Ibid., p. 112.

33 See table VI, Appendix.

34 Annual Report of the Director of the Mint . . . 1928, . . . 1929, . . . 1930, . . . 1931, . . . 1932, op. cit.

35 See table VI, Appendix.

36 Loc. cit.

the Conference.[38] It should be borne in mind, also, that Mexico, of all the countries in the world, had the heaviest relative economic stake in silver.

The United States, contrary to the example set by all the other signatories entirely reshaped its recent policies in connection with the metal. Under the agreement it was to remove 103 per cent of its 1932 production. By President Roosevelt's proclamation, it actually withdrew all of its annual output.[39] In addition to this very generous gift to the cause of silver, it acquired even greater quantities of foreign silver after 1933.

Professor Westerfield was, without doubt, absolutely correct when he termed the Eight-Nation Pact as nothing more than a thinly-disguised gift from the Federal Governement to the American silver producers.[40]

V THE SILVER P ROCLAMATION OF DECEMBER 21, 1933

In order to satisfy the pact commitments, President Roosevelt issued a proclamation on December 21, 1933.[41] It directed the mints to receive all the current domestic silver

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37 Bratter, op. cit., p. 98.

38 Ibid., p. 82.

39 See table, VI, Appendix.

40 Westerfield, op. cit., 47.

41 Congressional Record, 73rd Congress, 2nd Session, Vol. 78 (United States Government Printing Office, 1934), pp. 614-15.

which might be tendered to them. Half was to be coined into standard silver dollars for payment to the tenders of the metal. The other half was to be retained as seignorage and used only for monetary purposes until June 1, 1938.

Section forty-three of title III of the Agricultural Adjustment Act of 1933 was cited as authority for the proclamation.[42] It is recalled, however, that the section in question authorizes "unlimited coinage . . . at the ratio so fixed," but no mention is made of purchases being limited to current domestic silver. Another questionable feature of the proclamation was its virtual ratification of the pact. Whether this could properly be included within the sphere of executive agreements without Senate ratification is doubtful. However, there apparently was no serious objection to the proclamation on the basis of either point.

There was instituted no change in the prevailing ratio. In view of the frequent changes of the weight of the gold dollar at that time this was a wise decision.

The novel method of pricing resulted in a figure (64.64 cents a fine ounce) of 50 per cent of the monetary value of the bullion. This arrangement led to the statement that the silver purchases not only didn't cost the United States a cent, but netted it a profit equal to the amount paid for the silver. Of course, the obvious test of this proposition is to determine how much this "profitable" metal would bring on the open

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42 See supra, pp. 35-36.

market. The difference between the market value and the value of the outstanding coins is fiat. As might be expected, this test entirely escaped the notice of the silver coalition.

At the end of 1933, the outlook for silver was brighter than it had been in a long time. The government had already done something for the white metal and there were excellent chances that it would do still more.

CHAPTER VI

THE SILVER LEGISLATION OF 1934

At the turn of the year the silverites were consolidating their forces and making ready for a big year for silver. On December 29, 1933, twenty-seven senators issued the statement:

> We favor bimetallism, the free and unlimited coinage of both gold and silver at a ratio to be established by law.[1]

This meeting, called by Senator Wheeler, included twenty-two democrats, four republicans, and one farm laborite. The majority were from silver states.

I THE GOLD MESSAGE

However, President Roosevelt's message to Congress on January 15, 1934, recommending legislation on gold, was not encouraging to the faction. Because he felt more study should be made of the situation, the President said:

> I am, however, withholding any recommendation to the Congress looking to further extension of the monetary use of silver. . .[2]

While he said this after first paying lip service to the

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1 Commercial and Financial Chronicle, Vol. 137, Dec. 30, 1933, p. 4604.

2 Congressional Record, 73rd Congress, 2nd Session, Vol. 78, pp. 614-15.

white metal cause, this was a rather forceful hint that silver proposals would be most unwelcome. He inferred that silver was the monetary standard for "probably half the population of the world."[3] A glance at the excellent survey done by Mr. Bratter of the Department of Commerce would have shown him that only a relatively unimportant fifth of the world's people were on such a standard.[4]

II THE WHEELER AMENDMENT

The silverites refused to accept the President's hint. For example, on January 26, Senator Burton K. Wheeler bought forth his old sixteen to one proposal as an amendment to the Gold Reserve Act.[5] This amendment sought to direct the purchase of not less than fifty million ounces of silver per month until either the price should have risen to one sixteenth that of gold or until a billion ounces of the metal should have been purchased.[6] The silver would be held in the Treasury, and it would be represented by circulating certificates, redeemable in bullion in units of ten dollars. The next day the measure was only closely defeated.[7]

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3 Loc. cit.

4 Bratter, op. cit., pp. 1-5.

5 Congressional Record, Vol. 78, January 26, 1934, pp. 1415-16.

6 Loc. cit.

7 Ibid., pp. 1464-65.

III THE PITTMAN AMENDMENT

An amendment offered by Senator Pittman was passed and incorporated into the Gold Reserve Act of 1934 as Section twelve.[8] It permitted certificates to be offered in lieu of the standard silver dollars specified in Section forty-three of the Thomas Amendment. In fact, the amendment allowed certificates to be issued against any silver bullion or standard silver dollars not held for the redemption of certificates already outstanding. Seignorage charges might differ for foreign and domestic silver. The measure authorized the President to reduce the weight of the silver dollar by the same percentage as he had the gold dollar. As originally offered, the devaluation power was mandatory, reading:

> The weight of the silver dollar shall not be fixed in any event at more than 60 per cent of its present weight.[9]

That the bill did little beyond placing one more silver law on the statute books is evident. The President already had most of the powers over silver granted anew by this Act.

IV THE PROPOSALS OF DIES AND THOMAS

In times past, subsidies to silver had been obtained through compromise measures when threats were made to pass

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8 Statutes At Large, Vol. 48, 1934 (Washington, D.C.: United States Government P rinting Office, 1934), pp. 337-344.

9 Congressional Record, Vol. 78, op. cit., January 27, 1934, pp. 1474-75.

extremely undesirable bills over an administration's veto.[10] It appears that the Silver Purchase Act came about out of just such a situation.[11]

In the House silver bills were proposed by Representatives Dies and Fiesinger. The Dies Bill was especially well supported. Its advocates argued with an abundance of fiction and misinterpreted fact that boded ill for the reluctant Administration. Perhaps the pork-barrel nature of the Dies proposal was even more conducive to its passage than the various questionable arguments.

The plan[12] authorized establishment of an "Agricultural Surplus Board." Co-operating with this Board, consuls, attaches, and other foreign representatives would make deals for the exchange of our agricultural surpluses for silver at whatever value might be agreed upon. Against the silver acquired, certificates would be issued for payment to the farmers who furnished the commodities. The maximum acceptance rate of the silver was set at 125 per cent of the world market price. The same limit was established for the monetary value of the silver. The only restraint on the volume of the metal to be acquired under the scheme was that the aggregate premium on the silver so accepted should not exceed 400 million dollars a

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10 Reference is made here to the Bland-Allison and Sherman Acts, supra, pp. 8-11.

11 See Congressional Record, op. cit., May 22, 1934, p. 9211.

12 Ibid., March 19, 1934, p. 4844.

year. Even if the price of silver should have risen to the improbable level of sixty cents and the maximum bonus should have been paid, yearly acquisitions of over 2,666 million ounces a year would have been permitted.

On the same day that the proposal was first discussed, Secretary of the Treasury Morgenthau announced that Professor James Harvey Rogers of Yale was being sent to China to study the silver situation there.[13] The mission was loudly disparaged by the silver forces as a "stall" on the part of the Administration. Wheeler, for instance, railed against the move, as "the heigth of assininity."[14]

A proposal simila r to the Dies Bill was tendered by Senator Thomas, of Oklahoma, on May second.[15] Submitted as a rider to a Federal Reserve Bank measure, it sought, aside from the agricultural surpluses exchange provisions, to make 30 per cent of the metallic monetary reserves consist of silver. This reserve figure and the 1926 price level were offered in place of the annual premium limit of the Dies Bill. It is also worth noting that the amendment would have permitted the nationalization of silver at fifty cents a fine ounce. This was the price incorporated in the Silver Purchase Act.[16]

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13 New York Times, March 20, 1934.

14 Congressional Record, op. cit., March 19, 1934, p. 4814, and passim.

15 Ibid., May 2, 1934, pp. 7909-10.

16 See infra, p. .

V SECURING SILVER LEGISLATION

In the meantime conferences were being held with various officials closely connected with the Administration. Finally, on May sixteenth, nine senators, including Borah, Pittman, Wheeler, and Thomas (of Oklahoma), met with the President for an hour and a half.[17] News filtered through to the press that the President first consented to only a purely permissive measure, then in the end promissed to carry out the wishes of the group.[18] Any discretionary feature would be considered as a direction of Congress.

Speaker of the House Rainey hailed the move as the most important concession made by the President during that session of Congress, and he looked forward to the "bimetallic system."[19] The chairman of the group, Senator King, predicted a monetary conference would come early in 1935 as a result of this concession.[20]

By the time the bill waspresented on May twenty-second, it was evident, however, that the more extreme members of the silver-inflation coalition were anything but satisfied. Such complaints as Mr. Feisinger's were made as early as the

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17 New York Times, May 17, 1934.

18 Ibid., May 18, 1934.

19 Loc. cit.

20 Loc. cit.

seventeenth.[21] At that time he advocated refusing all silver legislation until the next session when he felt his forces would be strong enough to write a "proper silver expansion measure."[22]

In his message to Congress recommending the legislation, President Roosevelt cited the need for a "broader metallic base" for the currency.[23] However, silver could not possibly broaden the "metallic base" until it should be accepted as a medium of ultimate redemption.[24] So long as the silver did not have a market value equal to the monetary, it could be nothing more than token currency. In May of 1934, when silver was around forty-five cents an ounce, the silver dollar was worth intrinsically only thirty-five cents more than the greenback.[25]

After mentioningthe main provisions of the Silver Act, the President put the nation at ease on bimetallism by saying that the double standard would be attained only through the concerted action of most of the nations of the world. Despite his reference to conferences with "some of our neighbors," [26] the public considered such international co-operation as

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21 Loc. cit.

22 Loc. cit.

23 Congressional Record, op. cit., May 22, 1934, pp. 9209-10.

24 See infra, pp. .

25 See Figure 2, Appendix.

26 Congressional Record, Loc. cit.

virtually impossible. His praise of the bimetallic standard was generally catalogued as a bid for popularity with the silver interests.

In a long speech, designed to win the support of the dissatisfied members of the silver-inflation faction, Senator Pittman introduced the bill.[27] His talk contained much that might be questioned. Among the many other incorrect statements, a contention appears that Greshams law could not operate

> . . . because the history of the purchase of silver from time immemorial had demonstrated that there is a world p rice for silver, when silver is permitted to flow freely.[28]

One is somewhat taken aback to learn that such reasoning could exist in the United States Senate. In support of his contention, the Senator proffered the silver purchase acts of the past century which were repealed because of the functioning of that very principle, Gresham's law.[29] An example of a direct mis-statement is the Senator's declaration that the debtor had to pay twice as much in products and labor as his money would purchase at the time of the loan.[30]

In reply to Senator Vandenberg, Senator Pittman explained that the discretionary phrasing of the Act was necessary because of the effect too sudden a rise in the price of silver would have on China. This indicates, perhaps, that the oft-repeated, altruistic purpose of aiding China was not accepted seriously even by its authors.

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27 Ibid., pp. 9210-15.

28 Ibid., p. 9210.

Senator Pittman praised the measure as a "magnificent compromise," offered by the President, who wasin sympathy with silver all the time, in spite of the Treasury Department.[31] However, there is a world of meaning in his remark that:

> . . . while this is the President's bill, I do not feel that the President would desire to claim the entire credit for it.[32]

In this connection the Senator's homage paid to the Dies Bill is symbolic.

As mentioned before, the bill was attacked severely not only by "hard-money" men, but also by the more rabid of the silver and inflation forces who demanded a mandatory measure. Senator Thomas assailed the Administration's proposal in bitter sarcasm.[33] Senator Long in his own habitual, colorful language commented on the bill:

> In common parlance, we have another baby rattle . . .[34]
> . . . . . .
> This bill does not, topside, face or bottom, give us anything at all, not a thing on God's living earth . . . Even if the President did try to do anything, I do not know how he could do it under this bill.[35]

Some conservative of rather poor taste inserted into the

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29 Ibid., p. 9214. See supra, pp. 11-12.

30 Ibid., p. 9215. See Statistical Abstract of the United States for 1938, op. cit., pp. 306-316.

31 Congressional Record, op. cit., p. 9215.

32 Ibid., p. 9210.

33 Ibid., p. 9218.

34 Loc. cit.

35 Ibid., p. 9219.

Record in the midst of all this the resolution from the Economists' National Committee on Monetary Policy.[36] The resolution logically pointed out the folly and unfair subsidy of the silver program. Its logic, however, was probably a foreign language to those to whom it was addressed.

Because the bill contained a tax it went first to the House. There, an amendment to double the proportion of silver in the metallic stocks failed as did also other liberalizing amendments.[37] Amid complaints of railroading,[38] the bill was passed on May thirty-first, with 263 in favor and 77 opposed.[39]

Just before the vote, Representative Martin of Colorado clearly indicated the stand taken by those who supported the measure:

> I just want to say this, that if this bill becomes a law and the administration of it goes as far as the law, that will be far enough, but if the administration of this law does not go that far, then there will be another Secretary of the Treasury going back to little old New York. [Applause][40]

In the Senate there was similar debate over the compromise with Senators Thomas[41] and Long[42] arguing at great lengths for amendment. Huey Long was particularly bitter against the

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36 Ibid., pp. 9220-21.

37 Ibid., May 31, p. 10019.

38 Ibid., p. 10001.

39 Ibid., p. 10134.

40 Ibid., p. 10124.

41 Ibid., June 6, pp. 10603-16, 10678-702.

42 Ibid., pp. 10921-33.

50 per cent profits tax, saying Dillinger would be hung for half that.[43] The bill, however, passed the Senate, 55 to 25,[44] and was approved on June nineteenth.[45]

VI PROVISIONS OF THE SILVER PURCHASE ACT

As finally passed, the Silver Purchase Act of 1934 (H R 9745), expressed it to be the policy of the United States that silver should constitute one fourth of its monetary stocks.[46] To achieve this goal the Secretary of the Treasury is authorized to buy silver here or abroad in whatever manner he deems best, providing that he does not pay a price in excess of its monetary value. Whenever the price exceeds its monetary value or silver constitutes more than 25 per cent of the total monetary stocks, then the Secretary, with the President's approval may sell.

The Act directs the issuance of certificates equal to the cost of the acquisitions. It states that they shall be legal tender and redeemable on demand in standard silver dollars. For their redemption the Treasury is to maintain a a reserve of silver bullion and dollars equal in monetary value ($1.29 per ounce unless altered by the President) to

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43 Ibid., p. 10931.

44 Ibid., June 11, p. 11060.

45 New York Times, June 20, 1934.

46 Statutes At Large, 1934, op. cit., pp. 1178-81.

the aggregate amount of outstanding certificates.

Finally, the Act provides for the nationalization of silver at no more than fifty cents an ounce. A 50 per cent tax is to be levied on all profits derived from silver speculation.

On June twenty-first reporters interviewed Secretary Morgenthau regarding the actual functioning of the new law.[47] Mr. Morgenthau said that every effort would be made to prevent speculative activities and a "sensational" price rise. Confiding that silver had been purchased right along out of the Stabilization Fund, he said that hereafter the purchases would be made through the General Fund. Whether or not the volume of buying would increase would depend upon offerings being made at reasonable prices. From this the press gathered that no spectacular developments would occur.[48]

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47 New York Times, June 22, 1934.

48 Loc. cit.

CHAPTER VII

THE FUNCTIONING OF THE SILVER POLICY IN 1934 AND 1935

I THE BASES FOR ISSUING SILVER CERTIFICATES

Prior to 1933, silver certificates were secured by silver dollars containing 371.25 grains of fine silver. Under the Thomas Amendment[1] they were issued against war debt silver at its acquisition price of fifty cents an ounce, so that each certificate had a reserve of two ounces. The certificates were placed in circulation in payment of government obligations.[2] The Secretary of the Treasury was to coin whatever silver he felt necessary for the certificates' redemption. The balance of the silver was to be held in the Treasury for the purpose of maintaining the parity of the certificates. Once redeemed, they were to be "reissued and paid out again and kept in circulation . . ."[3]

In the proclamation of December 31, 1933, standard silver dollars rather than certificates are specified in payment for

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1 Title III, Section 45. See supra, pp. 35-37.

2 Statutes At Large, 73rd Congress, 1st Session, 1933 (Washington, D.C.: United States Government Printing Office, 1933), p. 53.

3 Loc. cit.

the silver.[4] Of course, payment could be made in substitute dollars, and this was actually the case.[5] The proclamation also permitted issuance of specie coined from the seignorage. The Pittman Amendment to the Gold Reserve Act altered this by permitting substitution of certificates for the actual specie, the specie being retained as their reserve.[6]

The Silver Act permits acquisition of the white metal with any money, but certificates must be issued at least to the extent of the cost of purchase, and may be issued to the full monetary value of the silver.[7] An amendment which proposed to make the maximum issue mandatory had failed to carry.[8]

Obviously, the conditions of issue were rather confused. To simplify the situation the Treasury Department took two major steps. The first, on June 21, 1934, closely followed the enactment of the Silver Purchase Act,[9] while the second was promulgated the day after the nationalization order of August ninth.[10] The first stated that the policy would be to issue certificates against all the silver only in an amount equal to

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4 Annual Report of the Secretary of the Treasury . . . 1934, (Washington, D.C.: United States Government Printing Office, 1935) p. 210.

5 Leavens, op. cit., p. 270.

6 Statutes At Large, 1934, op. cit., p. 342.

7 Ibid., p. 1178.

8 Congressional Record, Vol. 78, op. cit., p. 10476.

9 New York Times, June 22, 1934.

the metal's cost.[11] On August 10, 1934, a change occurred when the President directed the Secretary of the Treasury to issue certificates against all the silver on hand.[12] This was done on the basis of reserving 371.25 grains of silver for each dollar in certificates. The silver had cost about $46,900,000, so about $80,000,000 worth of certificates were issued.[13] Since then, silver certificates have been issued only to the extent of the cost of the purchases.[14]

II SEIGNIORAGE

In the discussion thus far we have referred to seigniorage at several p oints. This is the difference between the cost value and the monetary value of the silver acquired. For example, in 1939 the government purchased 282.2 million fine ounces of silver at a cost of 120.5 million dollars. The full monetary value of the silver amounts to about 364 million dollars. The seigniorage, therefore, is about 243.5 million dollars. This amount of silver certificates could be issued beyond the actual purchase price of the metal. However, the Administration has not deemed it wise to issue this excess

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10 Annual Report of the Secretary of the Treasury . . . 1935, (Washington, D. C.: United States Governement Printing Office, 1935) pp. 262-64.

11 New York Times, Loc. cit.

12 Annual Report of the Secretary of the Treasury . . . 1935, loc. cit.

13 Ibid., pp. 42-3.

14 Loc. cit.

amount. Instead, pursuant to the executive order of August 13, 1934, it is kept in the General Fund and recorded at cost value,[15] i.e., at the smaller figure of 161.7 million dollars, to return to the example.

The Treasury's announcement of August 10, 1934 stated that "since the beginning of the Government, the Treasury has received a total of 387 million dollars in seigniorage."[16] In the short period of six years following June 30, 1934, an aggregate of 833.7 million dollars in seigniorage has been accumulated at cost.[17] In as much as the average cost per fine ounce of silver during the period amounted to about fifty-four cents, it becomes evident that the seigniorage could be expanded to reserve about 1.9 billion dollars worth of certificates.

III THE DOMESTIC SILVER PURCHASES

After the passage of the Silver Purchase Act, domestic silver purchases continued to be made under authority of the President's proclamation of December 21, 1933; that is, at 64.64 cents an ounce. This, in turn, rested on the Thomas

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15 Annual Report of the Secretary of the Treasury . . . 1940 (Washington, D.C.: United States Government Printing Office, 1940), p. 263.

16 Ibid., p. 262.

17 Loc. cit.

Amendment as amended by the Gold Reserve Act of 1934. While domestic silver could have been purchases under the Silver Act, the price would have been lower. Consequently, until a mandatory price was set by the law of 1939, domestic silver continued to be purchased under proclamations.

Table III in the Appendix shows that 21.8 million ounces were purchased during 1934 and that the quantity rose steadily until 1938. The 1937 amount is nearly three times the amount all allocated to the United States by the Eight-Nation Pact.[18]

IV NATIONALIZED SILVER

As permitted by section six of the Silver Purchase Act, the Secretary of the Treasury placed an embargo on silver on June 28, 1934.[19] Export of silver was permitted for non-speculative purposes through a licensing system. This was done to halt the outward flow of the white metal. Speculators had been shipping their holdings abroad, mostly to Canada, in order to evade the profits tax.

On August 9, 1934, the President proclaimed the nationalization of the metal, requiring its delivery to the mints at fifty cents an ounce plus, except for certain holdings exempted.[20] During 1934, 110.6 million ounces were surrendered.

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18 Supra, p. 42.

19 Annual Report of the Secretary of the Treasury . . . 1934, op. cit., pp. 210-12.

20 Annual Report of the Secretary of the Treasury . . . 1934, op. cit., pp. 258-60.

Thereafter, the amounts diminished to a mere trickle.[21]

V THE FOREIGN PURCHASES

During the first year of the Act, foreign purchases aggregated 172.5 million fine ounces at a cost of eighty-six and a half million dollars.[22] In 1935, they multiplied to 494.4 million ounces for an all time high. This metal was purchased in the L ondon Market. The Market accepts bids and oreders to sell, then each day about noon fixes as official whatever price will result in the greatest volume of sales.[23] Abiding by the rules of the Market, the Treasury placed a bid from day to day and accepted whatever was offered.

Under the impetus of the United States' purchases, the world price rose sharply.[24] At the turn of the year it was fluctuating around sixty-four cents.[25] On April 10, 1935, the price had leaped to sixty-four and one eighth cents, a price nearly equal to that paid for the current domestic product.[26]

On the ninth, Secretary Morgenthau announced that the world price would be met even if it rose above the domestic

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21 See table III, Appendix.

22 Loc. cit.

23 Herbert M. Bratter, The Silver Market. United States Bureau of Foreign and Domestic Commerce, Trade Promotion Series, No. 139 (Washington, D.C.: United States Government Printing Office, 1932), pp. 9-22.

24 See Figure 2, Appendix.

25 New York Times, Jan. 1-24, 1935.

figure.[27] On the tenth President Roosevelt reduced the seignorage on current domestic production to 45 per cent, making a price of 71.11 cents an ounce.[28] Under this impulse, the world price rocketed, reaching seventy-one and five eighths cents an ounce on April twenty-fourth.[29] At this time the domestic price was revised upward once again to 77.57 cents,[30] where it was to remain until January 1, 1938. In the meantime, the world price jumped to eighty-one cents in two days.[31]

After this tremendous push the Treasury eased its activities and the price was permitted to relax until it averaged about sixty-five and a half cents during September, October, and November.[32] As will be brought out in Chapter VIII, these extremely high prices played havoc with monetary affairs in several countries.

On December ninth, the Treasury placed no bid on the London Market.[33] The price wavered, and on the following day,

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26 Commercial And Financial Chronicle, Vol. 140, April 27, 1935, p. 2759.

27 Loc. cit.

28 Annual Report of the Secretary of the Treasury . . . 1935, op. cit., pp. 260-61.

29 Commercial And Financial Chronicle, op. cit., p. 2759.

30 Annual Report of the Secretary of the Treasury . . . 1935, op. cit., p. 262.

31 See Figure 2, Appendix.

32 Loc. cit.

33 New York Times, December 10, 1935.

for the first time since the World War of 1914, London set no price.[34] After a precipitous decline, it came to rest in the vicinity of 44.75 cents on January 20, 1936.[35] In general, this price prevailed for about two years.

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34 Ibid., December 11, 1935.

35 See Figure 2, Appendix; also, New York Times, Jan. 18-26, 1935.

CHAPTER VIII

THE EFFECT OF THE SILVER POLICY ON FOREIGN COUNTRIES

I THE EFFECT ON CHINA

Employing one argument or another, the silver enthusiasts continually stressed the prosperity that would accrue to China from higher silver prices. That actual results would be quite the opposite was maintained at the time by practically all American economists, as well as by others in a position to know and understand the Chinese situation. In fact, it is probable that the low price of silver was the chief reason why China did not experience to any great degree the world depression.[1]

Her prices did not undergo the painful deflation that wrought havoc in other nations. Even her foreign trade, even her imports from the United States, were not reduced by so much as was world trade in general.[2] Since there is not time here to present the case fairly, the reader is justified in suggesting that things other than the Silver Act might be

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1 See, for example, article by E. Kann in The China Year Book For 1935, H. G. W. Woodward, editor (Shanghai: The North-China Daily News and Herald, Ltd., 1935), pp. 461-65.

2 See Table XI, Appendix.

responsible. Nevertheless, the fact remains that China's imports, both in general and from the United States, fell off sharply after enactment of the Act.

When the world price of silver was artificially and abruptly forced upward, China's monetary stocks flocked to foreign markets.[3] Lessening reserves meant credit contraction and deflation at a time when Chinese business was using funds profitable. Because of the decreased credit base and the resultant higher interest, production was curtailed. With this curtailment came both a decreased need for foreign goods and a decreased means for the purchase of what might be still required.

China's anxiety over potential attempts to raise and stabilize the price of silver were noted in the section dealing with the World Monetary and Economic Conference.[4] When the price of silver began rising sharply in the summer of 1934, the Nanking Government realized silver would be exported.[5] During August this began to occur in alarming proportions.[6] On the

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3 Chao-Ying Shih, M.A., and Chi-Hsien Chang, Ph. D., editors, The Chinese Year Book, 1936-37 (Shanghai: The Chinese Year Book Company, 1936), p. 888. Also, E. Kann, op. cit., p. 462. For American statistics, see: Foreign Commerce Yearbook 1935, Bureau of Foreign and Domestic Commerce (Washington, D.C.: United States Government Prinitng Office, 1935), p. 271; and Foreign Commerce Yearbook 1937, Bureau of Foreign and Domestic Commerce (Washington, D.C.: United States Government Printing Office, 1937), p. 292.

4 See supra, pp. 38 and 41.

5 New York Times, July 23, Sept. 3, 1934.

6 Shih and Chang, op. cit., p. 888.

nineteenth, Dr. Kung, Finance Minister, cabled the Administration concerning the difficulty caused his nation by the United States' purchase program.[7]

During September, Mr. Li Ming, Chairman of the Bank of China, was in the United States and he pointed out the ill effects of the silver policy. Feeling that the Silver Act was passed in the hope of increasing exports to China, he explained that China's silver

> . . . does not help much in her purchases abroad. She will have to depend upon her exports and her exports alone.[8]

In a new note to America, cabled on October second, Dr. Kung said about the same thing and asked if our government couldn't restrict its purchases to American silver for the present.[9] Secretary Hull, however, replied that the program was embodied in an Act of Congress, mandatory in its objectives.[10] He promised that the purchases would continue in such a way as to have the least possible ill effect on China. He suggested "direct governmental transactions" could be arranged.[11] The Chinese Government might have interpreted this as an invitation for it to accept the inevitable and sell its silver on its own account.

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7 New York Times, August 19, 1934.

8 Ibid., Sept. 9, 1934.

9 Ibid., Oct. 15, 1934.

10 Loc. cit.

11 Loc. cit.

II THE END OF THE SILVER STANDARD IN CHINA

After receiving this rather discouraging reply, Minister Kung held a conference with his advisers and then announced a flexible tax on silver exports.[12] This tax was designed to equal the potential profits on foreign sales of the metal. However, smuggling and its relaxed enforcement caused it to be largely ineffective.[13] The Chinese bankers' agreement not to ship silver was very much more helpful.[14]

By the end of 1934, it was apparent that Chinese monetary affairs were in difficult straits. While it was officially denied,[15] persistent rumors bespoke an impending change in the system. The Shanghai Exchange Market in 1935 showed marked uncertainty, registered by an ever-widening spread between rates for cash and forward delivery.[16] The British monetary expert, F. Leith-Ross, arrived in Shanghai in September, 1935.[17] Change seemed imminent.

The new system was announced on November third.[18] China, forced by the United States silver policy, renounced silver for managed currency. The nationalization of all

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12 Loc. cit.

13 Shih and Chang, op. cit., p. 889.

14 New York Times, April 1, 15, 17, 1935

15 Ibid., December 19, 27, 1934, for example.

16 Ibid., October 25, November 1, 4, 1935.

17 Ibid., September 22, 1935.

silver came with the abandonment of the standard.[19] With the exception of the Japanese, foreign governments approved China's action.[20]

III CHINESE SILVER SALES

On December 21, 1935, Chinese officials admitted for the first time that shipments of demonetized coin had been made to the United States.[21] It wasthen reported that the silver had been consigned to the Chase National Bank and the National City Bank to provide additional reserves for exchange stabilization.[22]

Earlier in the month, however, a Chinese Government spokesman was reported to have denounced the United States' policy reversal on the matter of prices.[23] As he saw it, just as soon as China had revised her monetary system to avoid being victimized by the artificially high prices, then the United States drove prices down so that the resulting free silver was worth only about three fifths its former price.

China succeeded, however, in disposing of at least fifty million ounces while the high price prevailed.[24] When the

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18 Ibid., September 22, 1935.

19 Ibid., November 5, 1935.

20 Ibid., November, 6, 18; December 13, 1935; February 14, 1936.

21 Ibid., December 21, 1935.

22 Loc. cit.

23 Ibid., December 13, 1935

transaction was made in November, the price was 65 cents an ounce, but payment was not made until after deliver. Then the current price was 45 cents. The difference on this shipment amounted to just ten million dollars, and, strangely enough, this exact portion of the $32,500,000 proceeds, China alloted for gold purchases.[25] Small wonder that Secretary Morgenthau had the "greatest admiration" for the Chinese methods and results.[26]

In April of 1936, a director of the Bank of China, Mr. K. P. Chen, and his aides carried on a series of discussions with Secretary Morgenthau relative to the silver situation.[27] Rumor had it that silver was to be stabilized as an international monetary unit,[28] and, later, that the United States would buy substantial quantities of the demonetized Chinese coin.[29] The conferences terminated on the eighteenth of May with the United States entered into an agreement to purchase Chinese silver at the current market price.[30] Secretary Morgenthau refused, however, to reveal the amounts to be purchased. The contract was renewed at intervals of six months.[31]

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24 Ibid., February 14, 1935.

25 Loc. cit.

26 Loc. cit.

27 Ibid., April 8, 9, 1935

28 Ibid., April 14, 1935.

29 Ibid., May 15, 1935.

30 Ibid., May 19, 1935.

Finally, on June 1, 1938, the Treasury stated that over 250 million ounces of silver had been purchased from China since the initial agreement in May, 1936.[32] Much of this, the announcement added, had of late been in the form of demonetized coins.

It is probable that the shipments have been decidedly curtailed since the latter part of 1938.[33] Japanese forces captured vast hoards of the white metal.[34] Also they have connived in the smuggling of other silver, and by means of their blockade they have rendered exportation extremely difficult.

To sum up, it might be said that our silver policy, in forcing China to forsake the metal, has definitely curtailed silver's demand in the future. In addition to this, the program has rum counter to our foreign policy in so far as it has furnished the Japanes with the means to purchase no small quantities of scrap metal, aviation gasoline, and other war supplies.

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31 Ibid., Jan. 1, 1937; July 10, 1937; Dec. 31, 1937; June 2, 1938; Jan. 3, 19, 1939.

32 Ibid., June 2, 1938.

33 Ibid., Jan. 24, 1941 cites Handy and Harmon, Annual Review of the Silver Market for 1940 (New York: privately printed, 1941), relative to this.

34 Loc. cit.

IV THE EFFECT ON MEXICO

Mexico was as much interested in higher silver prices as was the silver bloc of the United States. In fact, silver revenues and employment furnished in the mines are exceedingly important in the Mexican economy at the present time. As mentioned above, Mexico produces more silver than any other country in the world.[35]

However, when the Treasury's purchase policy forced the price to the extreme heights it attained in April and May of 1935, Mexico suffered from an acute small-change shortage. For it was profitable to melt the peso when silver went above seventy-two cents a fine ounce.

Faced with this highly inconvenient situation, President Cardenas, on April 27, 1935, ordered all silver money called in and exchanged for Bank of Mexico notes.[35] The banks were closed over the following week-end, reopening on the twenty-ninth.[36] The conversion progressed, and by August silver currency had been almost completely replaced by paper.[37] To many, it was paradoxical that the world's foremost producer of the white metal should remove it from its currency.

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35 Ibid., April 28, 1935.

36 Ibid., April 30, May 1, 1935.

37 Ibid., August 8, 1935.

During the difficulties of the last of April, Robert Lopez, Assistant to the Minister of Finance, flew to Washington for conversations with Secretary Morgenthau.[38] In a late statement after an hour's conference on the twenty-ninth, Senor Lopez said that Mr. Morgenthau was pleased with Mexico's legislative adjustments.[39] It was intimated in Mexican circles that the nationalized silver, with other quantities held as reserves, would be exchanged for United States gold.[40] Since 1931, Mexico had been on managed currency, using gold for stabilizing its foreign exchange and silver as a reserve for its money.

V THE SILVER PURCHASE AGREEMENTS WITH MEXICO

In December, Mexican currency was again in need of readjustment and Secretary of Finance, Suarez, went to Washington to confer with Secretary Morgenthau. On the thirtieth, Mr. Suarez announced that further debasement of the peso had solved the difficulty.[41] The talks were continued until the sixth of January, 1936,[42] when the Mexican official stated that "a mutually satisfactory agreement" had been reached.[43]

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38 Ibid., April 27, 30, 1935.

39 Ibid., April 30, 1935.

40 Loc. cit.

41 Ibid., December 31, 1935.

42 Ibid., January 1, 3, 6, 1936.

43 Ibid., January 6, 1936.

Beyond that, little was revealed. L ater releases indicated that the United States undertook to purchase about five million ounces a month from the Country's current output.[44] At the time, the secrecy aroused all manner of speculation. It was even alleged that the United States and Mexico were about to adopt bimetallism.[45]

As 1937 advanced, American and Mexican relations became steadily less favorable. Mexicans feared United States purchases of their metal would cease.[46] According to opinion, if Mexico refused to abide by the oil agreement or if the oil wage decision by President Cardenas was unfair to United States companies, the agreement would be allowed to lapse.

In the hope of securing a renewal of the purchasing contract upon its expiration, Finance Minister Suarez again visited Washington for about two weeks in December.[47] While the official was in Washington, the Mexican Labor Board's decision was made public. It required American oil companies to increase the workers' pay by about a third.[48] Interviewed

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44 Ibid., Jan. 11, 1936.

45 Ibid., Jan. 10, 1936.

46 Ibid., Sept. 25, Oct. 18, 1937.

47 Ibid., Dec., 14, 19, 25, 28, 1937.

48 Ibid., Dec. 19, 1937.

by the press, Senor Suarez said this was not of significance to the silver agreement.[49] He took the occasion to criticise the American p oint of view, saying:

> They call it Mexican silver, but it's really British and American silver, because the big silver interests of my country are all owned by British or American iterests.[50]

After a final conference on the twenty-eighth, also attended by Undersecretary Welles and Economist Feis of the Department of State, the agreement was continued.[51] Terms of the compact included the purchase of five million ounces of currently mined Mexican silver during January and also the absorption of the thirty-five million ounces Mexico had accumulated because of the Eight-Nation Pact. While officials in Mexico city claimed the arrangement was for along period of time, Secretary Morgenthau took pain to explain that it was only for one month, subject to extension.[52] The purchase agreement continued through the first three months and then was halted following the expropriation of oil lands in Mexico.[53]

However, the United States continued purchasing silver from private companies and even from the Mexican Government. In fact it would have been difficult to prevent this metal from finding its way to the Treasury without halting all pur-

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49 Ibid., December 25, 1937.

50 Loc. cit.

51 Ibid., January 11, 1938.

52 Loc. cit.

53 Ibid., March 19, 28, April 1, 1938.

chases of foreign metal. In the fall of 1938, silver was purchased under an arrangement designed to bolster our commodity sales to Mexico.[54] One way or another, Mexico has continued to market its silver here.

The importance of this market to the current Mexican economy is great. The Mexican Government derives directly about eight cents on every ounce of silver mined and exported.[55] In 1938 Mexico produced about eighty-five million ounces of the white metal.[56] Our Government purchased nearly all of this, first at 45 cents, then at 43 cents an ounce.[57] The total payment was in the vicinity of thirty-six million dollars, or 164 million pesos.[58] This is equivalent to over 19 per cent of the value of the total Mexican exports for that year.[59] In 1939 we purchased around eighty million ounces of Mexican silver for about twenty-eight million dollars.[60]

Writing in the summer of 1939 in Economista, Mexican conservative monthly, Senor Agustin Aguiar Almada well typifies the Mexican viewpoint.[61] Should the American Government suddenly suspend these purchases, argued the writer, the United States might also suffer. There was the matter of capital

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54 Ibid., October 13, 14, 1938.

55 Ibid., February 13, 1940.

56 Agustin Aguiar Almada, "Silver--Mexico's Nemesis" (a translation from Economista), The Living Age, 356:511-14, August, 1939.

57 Loc. cit.

58 Loc. cit.

59 Loc. cit.

60 New York Times, February 13, 1940.

settlements to be made in connection with the "Mexicanization" of industry. Of equal value in securing silver concessions was the threat of favoring the Italian and German exporters who were rapidly taking over what were formerly American markets.[62]

Consequently, for a multiplicity of reasons we have continued to purchase the Mexican product.

VI OTHER AMERICAN SELLERS

Many American countries mine silver for the United States market, but by far the bulk of our imported silver comes from Mexican and Canadian mines. Canada has been supplying this country with silver under agreement since March, 1936. At that time Secretary Morgenthau announced that the New York Federal Reserve Bank was to receive transfers of the white metal from the Bank of Canada.[63] Newspapers claimed the quantities amounted to fourteen or sixteen million ounces a year, but were to be delivered on a month-to-month basis.[64] Since then the Treasury has stated that acquisitions of the Canadian metal are made at a rate of two million ounces a month.

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61 A. A. Almada, op. cit.

62 Loc. cit.

63 New York Times, March 5, 1936.

64 Ibid., March 5, 6, 8, 1936. New York Herald-Tribune, March 6, 1936.

VII THE EFFECTS OF THE POLICY ELSEWHERE

The general effect of the silver policy has been to reverse the incipient trend back to silver for subsidiary coinage. This trend had begun around 1930, when the price of the metal was low. As its price rose, it became impractical for minor coinage. Silver coinage was halted and the demonetization practice of the World War days was repeated. Nations turned once again to the more economical paper.

Austria,[65] Danzig,[66] Ethiopia,[67] and Italy[68] were among the Old World countries forced to withdraw silver. In this Hemisphere, Colombia,[69] Co sta Rica,[70] Ecuador,[71] Nicaragua,[72] Peru,[73] and Salvadore[74] either considerably debased their silver coins or replaced them outright with paper.

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65 New York Times, May 15, 1935.

66 Ibid., July 31, 1935.

67 Ibid., August 1, October 20, 1935.

68 Ibid., June 16, 1935.

69 July 17, 1935.

70 Ibid., April 8, August 18, 1935.

71 Ibid., May 22, 1935.

72 Ibid., May 15, 1935.

73 Ibid., December 28, 1935.

74 Ibid., May 25, July 6, 1935.

CHAPTER IX

SILVER IN CONGRESS, 1936-1939

I THE THOMAS AND DIES PROPOSALS

One of the important matters before Congress during the early part of 1936 was the payment of the war veterans' adjusted compensation certificates. Senator Thomas of Oklahoma, ever anxious to flood the country with new money, proposed that payment be made with the silver seigniorage.[1] This method, however, would not be mandatory. As he brought out in discussion, his bill would permit the P resident to use this seigniorage, or the stabilization fund, or the proceeds of a bond issue. In fact, the Senator suggested that the power of using the seigniorage would be employed only as a threat to bring the banks to terms on bond arrangements.[2] Mr. Thomas estimated there could be issued about $1,240,000,000 in certificates.[3] The bill was voted on the eighteenth after a supporting speech by Senator Frazier, an inflationist,

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1 Congressional Record, Vol. 80, 74th Congress, 2nd session, (Washington, D.C.: United States Government Printing Office, 1936) p. 211.

2 Loc. cit.

3 Ibid., p. 210.

4 Ibid., pp. 669-70.

and it was rejected 27 to 64.[4]

Still desirous of getting silver certificates into circulation, Senator Thomas offered another bill for that purpose in March.[5] This one would have retired all the greenbacks, silver certificates, issued against future seigniorage, being exchanged for them. The bill died in committee, however.

A silver proposal offered by Senator Borah had a similar death. In this commodity dollar measure, offered in June of 1936, he proposed still greater acquisitions of the white metal.[6] These new acquisitions were to aggregate one billion dollars in the next five-year period, providing that the value of the silver holdings should not increase beyond 25 per cent of the gold stocks. Also, there was a price limit of $1.29 an ounce.

II ATTACKS ON THE SILVER PROGRAM

The only legislative threat to the silver program in 1936 came in a bill for its repeal offered by Representative Bacon of New York, and the bill was never reported out of committee.[7] The Economists' National Committee on Monetary Policy, however, published a denunciatory statement which might well have aroused more serious opposition. On May twenty-fifth, three days before the Bacon Bill was presented, the Committee

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5 Ibid., p. 3473.

6 Ibid., pp. 10364-65.

7 Ibid., p. 8278.

recommended in a resolution intended for Congress that all silver purchases be halted immediately.[8] In addition, it asked for the repeal of the President's authority to re-establish bimetallism and to effect other silver subsidies. The statement pointed out that silver purchases and the consequent issue of certificates diluted, rather than strengthened, the metallic base (gold).

In a speech of a rather caustic nature, Senator Pittman attempted refutation the same day.[9] His speech contained so many questionable statements that rebuttal here is out of the question. His fellow senators could hardly have given it serious consideration. For instance, he told them that China lost her silver because she attempted to stop its export, and that we needed the silver because of the scarcity of gold. The Senator promised a report from his special monetary investigating committee in the near future. This would supposedly furnish undeniable proof of the wisdom of the silver purchases. However, little more was heard of silver in 1936.

In 1937, two abortive attempts were made on the silver program, one by Mr. Bacon in January,[10] and another by Senator Townsend in August.[11] These two were aimed directly at the Silver Purchase Act of 1934. Senator Townsend offered two

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8 New York Times, May 25, 1936.

9 Congressional Record, Vol. 80, op. cit., pp. 7875-76.

10 Congressional Record, Vol. 81, 74th Congress, 3rd Session (Washington, D.C.: United States Government Printing Office, 1937), p. 289.

11 Ibid., pp. 8163-64.

additional resolutions: one was to cancel the President's powers to devalue the silver dollar and to provide for its unlimited coinage, and the other was to investigate the monetary situation in relation to silver.[13] It is worth noting, in connection with this last, that Senator Pittman's special silver committee was still in dormant existence. His promise of an early committee report in the speech of May 25, 1936 had proved barren.

III THE EXTENSION OF THE SUBSIDY

The proclamation which set the domestic silver price at 77.57 cents a fine ounce terminated on December 31, 1937. As the time drew near, Senator Pittman and others of the silver bloc began a desultory campaign for the continuance of the subsidy.[14] Senators Pittman and King made their usual type of silver speech from time to time, and the Tri-State Miners' Association petitioned the P resident to retain the high price.[15]

Opposition was met in a speech by Representative Tabor and in a statement issued by Dr. Walter E. Spahr of New York University. There was little doubt, however, but that a new proclamation would be forthcoming. The Treasury Department had

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12 Ibid., p. 8164.

13 Loc. cit.

14 Ibid., pp. 219,28 and 922-25.

15 New York Times, Dec. 14, 1937.

16 Ibid., Dec. 24, 1937.

promised the issuance of one and thereby made any intensive campaign useless.[17]

The proclamation was finally issued on December thirty-first, and rather unexpectedly reduced the price of current domestic silver to 64.64 cents a fine ounce.[18] Patrons of the white metal raised only a temporary clamor, apparently considering themselves fortunate to find the subsidy still in existence.[19]

Unless renewed the Eight-Nation Silver Pact was to terminate also at the end of the year. It was abundantly evident that other governments were not at all interested in its extension.[20] Therefore, it was not at all a surprise when the Pact quietly died by default at the appointed time. The purchasing of the Mexican quota by the United States, has already been mentioned.[21]

IV THE PITTMAN EXCHANGE PLAN

Silver played a very minor role in the third session of the seventy-fifth Congress. Mr Tabor brought it to the attention of his fellows, however, by his dogged attempts to strike out each silver appropriation as it came up.[22] He

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17 Ibid., Dec. 8, 14, 27, 1937.

18 Ibid., Dec. 31, 1937; Jan. 1, 1938.

19 Ibid., Jan. 1, 2, 1938.

20 Ibid., Dec. 14, 1937 is a good example. Probably most governments were anxious to sell their silver to the U. S.

21 See supra, p. 77.

received some applause, twenty votes, and, along with his colleague, Mr. Ditter, all manner of arguments from the silverites. Representative Barton offered a bill to repeal the Silver Purchase Act.[23]

Later in the year, the press carried a curious plan offered by Senator Pittman.[24] He proposed that the surplus cotton be exchanged for silver in foreign markets, at ten pounds of cotton per ounce of silver. Certificates would be issued against the silver thus acquired and paid to the farmers for their cotton.

At that time cotton was selling for about 8.25 cents a pound.[25] Silver was currently quoted at 42.75 cents an ounce.[26] On this basis the foreign importer would be paying only 4.27 cents a pound for 8.25 cent cotton. At the same time, because the ounce of silver would have a United States monetary value of $1.29, the farmer would receive the handsome price of almost 13 cents a pound. Thus both the seller and the purchaser would enjoy unusual prosperity.

Mr. Pittman denied any truth in the "silly cry of inflation" which would be aroused. The reason he offered is

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22 Congressional Record, Vol. 83, 75th Congress, 3rd Session (Washington, D.C.: United States Government Printing Office, 1938), pp. 592-598, 602-603, 644-48, 653-54.

23 Ibid., p. 810.

24 New York Times, Sept. 28, 1938.

25 Ibid., Sept. 27, 28, 29, 1938.

26 Loc. cit.

rather mystifying. He pointed out that the $864,000,000 worth of silver certificates he expected the plan to entail, would amount to less than 10 per cent of the billion dollar national income figure, hoped for by the Administration! Fortunately, no official cognizance of the plan was ever taken.

CHAPTER X

THE ADVANCEMENT OF THE SILVER SUBSIDY IN 1939

The year, 1939, was a very important one in the progress of the silver policy. During this year the white metal received more attention than it had previously enjoyed since the Silver Act of 1934.

I THE THREAT OF REPEAL

The first publicity it obtained, however, was most unwelcome to the silver bloc. On January fourth, Senator Townsend moved against the policy through a resolution providing for its investigation.[1] This resolution,which called for a ten-man committee, cited forty-six evils arising from the Silver Purchase Act. While it was in committee, it was rendered ineffective through a clever move by Senator Pittman. He successfully requested that Senator Townsend, with three others, be placed on his Senate Special Silver Committee of August sixteenth, 1935.[2] He again promised action by his committe within a few days.

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1 Joint Resolution Providing for the Appointment of a Special Joint Committee to Investigate the Silver Program and for Other Purposes. Senate J R - 1, Jan. 4, 1939.

2 Congressional Record, Vol. 84, 76th Congress, 1st Session (Washington, D.C.: United States Government Printing Office, 1939), p. 357.

Checked in his first play, Senator Townsend introduced on January seventeenth a bill to revoke the President's authority to revalue the silver dollar and to continue purchasing silver.[3] Sale of surplus Treasury stocks was to be permitted at whatever prices should be deemed "best." Continued imports of silver would be forbidden. The Senator thought the Treasury should retain 500 million ounces of the hoard as sufficient for the next century's coinage requirements. He further suggested that $250,000 be appropriated for research looking toward an expansion of non-monetary uses of the metal.

Two days later, on the nineteenth, Senator Pittman countered with an amendment to the Townsend Bill designed to alter the Silver Act in a quite different manner.[4] The Act, as amended, would peg current domestic silver at $1.29 an ounce. The present price of the foreign metal would be retained, but this non-domestic product would be accepted only in payment for American exports. The 50 per cent tax on profits would be eliminated as having the effect of destroying the domestic silver market. In seeking to relate surplus commodities and the silver subsidy, Senator Pittman again reverted to the old Dies idea.

As the year advanced, silver continued to get attention.

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3 New York Times, Jan. 18, 1939.

4 Ibid., Jan. 20, 1939.

On February second, the Pittman Investigating Committee arranged for conferences with Secretary Morgenthau.[5] In testimony the Secretary said the purchases under the Act had increased the buying power of such silver producing countries as China, Mexico, Canada, Peru, Chile, and the Philippines.[6] Under pressure from Senator King, the Secretary said he was unaware of Mexican silver being sold to the Treasury. He pointed out that the Treasury broke off its Mexican agreement in March of 1938. However, he bolstered up the popular belief that the Mexican product was really being sold here by stating, "We have no way of knowing the origin of the silver."

At the first of June, Senator Townsend was still continuing his fight against the Silver Purchase Act. On the seventh he offered another amendment to a bill which sought to extend the President's devaluation and stabilization powers. Less ambitious than some of its predecessors, this amendment would not have altered domestic purchases.

II THE SILVER BLOC AND THE ADMINISTRATION'S EMERGENCY POWERS

In May the President conferred with Senator Miller, of the Senate Banking and Currency Committee, concerning the

5 Ibid., Feb. 3, 1939.

6 Ibid., Feb. 8, 1939.

7 Ibid., May 16, 1939.

extension of his emergancy powers over money.[8] The Treasury evidently considered this as aggood time to put out a bid for the support of the silver bloc. To this end it mentioned having moved for extension of Title III of the Thomas Amendment.[9] This part permitted the unlimited coinage of silver and was the basis for the domestic purchases by proclamation.

Early in June, Senators Glass and Wagner appeared as the opposing leaders in the fight over the President's monetary powers. With Senator Glass stood Byrd and Adams, the last named actually offering the bill for ending the powers.

A surprise move came when Senators Thomas and McCarran offered an amendment to the stabilization bill.[10] Among other things, the amendment proposed to make the purchase of domestic silver mandatory at $1.04 an ounce, an increase of more than 60 per cent over the prevailing subsidy price. Also, foreign silver offered in return for surplus commodities would be accepted at 25 per cent above its market price. Incidentally, the bill discarded the stabilization fund and the devaluation authority. On the sixteenth, the two Senators in statements to the press named nine other senators, for the most part members of the silver bloc, who were determined to see their measure enacted.[11] While there was little possibility of

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8 Ibid., May 16, 1939.

9 Loc. cit.

10 Ibid., June 16, 1939.

11 Loc. cit.

passage for their bill, it sufficed as a powerful bargaining lever.

The silver senators had demanded a statement of price intentions on the part of the Treasury. Secretary Morgenthau stated he would set no price until passage of the Administration's measure was secured. Nevertheless, it was rumored that the silver enthusiasts would probably gain some sort of a concession.

On June twentieth, there were indications that the silver bloc was organized for a filibuster against the Administration's measure.[12] Senate leaders felt certain that the possibility might be avoided by an increase in the price of domestic silver to around seventy-seven cents an ounce. The next day the filibuster began with a five-hour recital of American monetary history by Senator Thomas of Oklahoma.[13] In the meantime his partner from Nevada, Senator McCarran, carried on cloak-room diplomacy.[14]

The filibuster was temporarily suspended on the following day to permit the passage of a tax bill. It was generally believed that this friendly gesture toward the Administration was made to pave the way for a compromise offer. The Treasury was reported to have offered a pledge that the new price would

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12 Ibid., June 20, 1939.

13 Ibid., June 22, 1939. Also, Congressional Record, Vol. 84, op. cit., pp. 7591-7626.

14 New York Times, loc. cit.

not be below seventy cents.[15] The silverites, on the other hand, were supposed to be considering seventy-seven cents as a minimum.

A compromise was again offered with an administration offer to peg the domestic price at sixty-four cents. According to a statement by Senator Barkley, the offer was flatly rejected and the seventy-seven cent figure was repeated.[16] Other members of the group, however, were reputed to have privately suggested that 64.64 cents, if mandatory, would be acceptable. At any rate, the filibuster went on and an offer for a vote on a Pittman silver amendment was not a ccepted.[17] This particular amendment specified a mandatory price of $1.27 an ounce.

III THE INITIAL SILVER VICTORY

On Monday, the twenty-sixth, the silver forces reaped a harvest. The bloc halted its filibuster for a vote on the Pittman Amendment. This was defeated as expected.[18] Then a compromise measure penned by Senator Addams was offered. The compromising, though of course pre-arranged, was carried on right in the Senate. As soon as his price of $1.27 was rejected, 52 to 26, Senator Pittman offered a new amendment presented by McCarran at almost the same moment. This was

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15 Ibid., June 23, 1939.

16 Ibid., June 24, 1939.

17 Loc. cit.

18 Congressional Record, op. cit., p. 7859.

like the preceding by changed the price to 77.57 cents.[19] Then Senator Adams of Colorado, leader against the Administration's monetary measure, incorporated the amendment into his own which would revoke the devaluation power.[20] Senator Pittman appeared rather confused and seemed to have expected separate votes, each clique supporting the other.[21]

By vote of the Senate, 39 to 35, the merged amendment was divided into its components.[22] Barkley kept up his opposition only a little longer, and then the two branches were voted. The revaluation branch carried 47 to 31,[23] while 48 votes were cast in favor of the silver amendment against 30 opposed.[24]

Senator Townsend, who had voted for the former, offered an amendment to discontinue further acquisition of foreign silver.[25] Strangely enough, the amendment was actually passed, supported by some members of the silver bloc.[26]

A survey of the roll call vote shows quite obviously that there really was a horse-trade on a large scale. Only two Republicans, Townsend and Tobey, voted against the

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19 Loc. cit.

20 Ibid., pp. 7860-62.

21 Ibid., p. 7860.

22 Ibid., p. 7865.

23 Ibid., p. 7867.

24 Ibid., p. 7868.

25 Ibid., p. 7877.

first silver measure. Only one of the silver bloc, Senator Borah of Idaho, voted against the Adams amendment which sought to end the devaluation power.

Of course, there was no prophesying how the silver bill would make out in conference. However, the Senate compromise practically assured silver of great concessions. The amendment concerning foreign silver caused great consternation in Mexico,[27] and it was generally felt that the Department of State would not like it. As for the President, he went fishing.[28] It became apparent, though, that President Roosevelt was really concerned over the discontinuance of foreign purchases because of their diplomatic leverage over certain "good neighbors," particularly Mexico.[29]

The fact that the domestic purchases were merely a sop became steadily more obvious. Occasionally, this was intimated by even the silver group. On the twenty-eighth, for example, Senator Pittman made a statement to the press pointing out that he had voted "for appropriations for billions of dollars to make losing loans and pay bonuses to agriculture . . . "[30] All this he had done altruistically for it "did not benefit my State."[31] [Italics ours.] In return for this support,

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26 Ibid., p. 7881.

27 New York Times, June 27, 1939.

28 Loc. cit.

29 Ibid., July 1, 1939.

30 Ibid., June 29, 1939.

31 Loc. cit.

silver ought to receive similar consideration.

IV THE FINAL COMPROMISE

On the twenty-eighth the Senate bill was rejected by the House and it went to conference. In the interim the price of silver had continued to slump. In two days it had fallen from 43 to 38.5 cents an ounce, about a 10 per cent drop.[32] A day later it was at 38 cents. On the whole, the market was very much steadier than it had been expected to be.

On June thirtieth, the conference report was brought to the Senate.[34] It provided for continuation of the stabilization fund. This was the only important concurrence with the Senate's action of the twenty-sixth. It also continued until June 30, 1941, the power of further devaluating the dollar. The Senate members likewise capitulated on the price of domestic silver. The conference report increased the seigniorage to 45 per cent, resulting in a price of 71.11 cents a fine ounce. Because Senators Vandenburg, Barbour, and Tydings kept up a filibuster until after midnight, when the laws in question expired, no immediate action was taken.[35] Just before two A.M. the Senate adjourned until July fifth.

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32 Metal Statistics, 1940 (New York: American Metal Market Company, 1940), pp. 260-61.

33 Loc. cit.

34 Congressional Record, op. cit., p. 8408.

35 Ibid., pp. 8415-8434.

Opinion was divided as to whether or not the coalition would break up with the silverites supporting the conference report. The break actually came when the majority of the silver-inflation faction felt it advisable to yield and to accept the 71.11 cents. The acceptance was not at all unanimous, however. Senator Ashurst, for instance, voted against the report and declared:

> . . .if this conference report, this miserable compromise, be rejected, the conferees will bring in a report fixing the price of domestically mined silver at 77.57 cents an ounce, or higher.[37]

McCarran of Nevada was equally confident that better things could be gained through waiting and he bitterly assailed the lower price, styling it a "sop."[38] He inferred that 77.57 cents would not have been that. With a plea that "it is the silver dollar that made America," he implored his fellow senators to vote down the lower price on "principle."[39]

The silverite of greatest influence, however, felt that the chances of ultimate defeat were too great to warrant further trading. Asking that the compromise be accepted, Senator Pittman told how he had finally promised Senator Barkley, the majority leader, he would support this report.[40] The price of support was the mandatory figure of 71.11 cents

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36 Ibid., p. 8567.

37 Ibid., p. 8551.

38 Ibid., p. 8561.

39 Ibid., p. 8562.

40 Ibid., p. 8563.

finally incorporated in the report. This was roughly halfway between 64.64 and 77.57 cents. Saying, "I know that the Secretary of the Treasury is not only prejudiced against domestic silver, but he is vindictive," [41] Mr. Pittman suggested that the white metal was fortunate to gain any concession at all.

The report was voted a little before five (the agreed upon time) and it carried, 43 to 39.[42] A majority of the silver senators supported it. From the bloc, only Adams, Ashurst, Johnson (of Colorado), and McCarran voted against the report.

On the twenty-seventh of July, Senator Townsend offered one of his by now rather common-place bans on foreign purchases.[43] It was defeated with 38 votes cast for it and 41 against it.[44] Almost all of the silverites voted in opposition.

V THE COURSE OF SILVER

The silver policy moved along smoothly throughout 1939. Of course, little was bought during the anxious days of the compromise. At that time, however, as pointed out above, the world price remained more stable than might have been expected. Until June 26, it remained at 42.75 cents on the

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41 Ibid., p. 8562.

42 Ibid., p. 8567.

43 New York Times, July 28, 1939.

44 Congressional Record, op. cit., p. 10335.

New York market.[45] On the three following days it dropped to 37.75 where it rested two days.[46]

After this no price was issued until July sixth, following passage of the amendment.[47] The new figure was 36.5 cents. At the time it was suggested that if the price had been set much higher, dumping would have occurred.[48] On the tenth the Treasury established foreign silver at 35 cents, and the price is still effective.[49] However, the Treasury had an agreement with many producers whereby it paid eight cents an ounce more if the silver should be refined in the United States.[50] Most South American producers, along with many Canadian and Mexican miners, availed themselves of the enhanced price.[51]

In accordance with the Treasury price, the market settled at 34.75 cents. Due to the fear of impending war, the price began an upward surge on August tenth.[52] On the twenty-fifth, it peaked at 39.75 cents which proved to be the half-year's high.[53] The price has fluctuated, but only negligibly since November of 1939.

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45 Metal Statistics, op. cit., p. 260.

46 Loc. cit.

47 New York Times, July 7, 1939.

48 Loc. cit.

49 Ibid., July 11, 1939.

50 Ibid., August 25, 1939.

51 Loc. cit.

VI THE NEAR DEFEAT OF THE SILVER PURCHASE ACT

At the beginning of 1940 Senator Townsend presented his customary ban on foreign-silver buying.[54] Senator Barkley opposed it and pointed out that the matter "involves our foreign policy, as well as purchases here by nations who have been sending us silver." [55]

On the twentieth, the Federal Reserve System's Advisory Council unanimously endorsed the Townsend Bill.[56] In a statement the Council said it had noted the bill was before the Senate Banking Committee and forthwith sent this resolution. The resolution pointed out the fact that the silver purchases increased the "already excessively large bank reserves." Later, on March ninth the New York State Chamber of Commerce issued a resolution favoring the Townsend Bill.[57]

The Administration appeared to have every hope of the bill's failure. Before the silver purchases were begun, President Roosevelt very likely was not in favor of them. Should they be halted now, however, our neighbors to the South, especially Mexico, could well retaliate by turning to Nazi

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52 Metal Statistics, op. cit., pp. 262-66. Also, Annual Report of the Director of the Mint . . . 1940, op. cit., p. 85.

53 Loc. cit.

54 New York Times, Jan. , 1940.

55 New York Times, Jan., 1940.

56 Ibid., Feb. 20, 1940.

57 Ibid., March 10, 1940.

Germany, in so far as the blockade would permit. At any rate such cessation would not aid the Hemisphere solidarity program.

Consequently, it is not strange that Senator Wagner, Administration henchmen and Chairman of the Senate Banking and Currency Committee, wanted neither the Townsend bill nor the slated investigation of the silver purçhases. On the nineteenth of March the Wagner Committee was to hold a stormy session. At this meeting Senator Wagner clashed sharply with Senator Tobey over the silver investigation.[58] He suggested the complicated nature of such a matter as reason for the long delay. Exploded Mr. Tobey, "The complicated matter be damned!"[59] and he later strode from the room.

At the meeting Secretary Morgentau repeated his foreign trade argument, but it was very evident that he really wished to emphasice the importance of the policy to diplomatic matters. He used such expressions as "friendly relations," "troubled conditions," and " foreign relations."[60] Of course, this further bears out the theory that the Administration has desired continuance of the foreign silver buying for diplomatic reasons.

The about-face in the line of argument offered by the Treasury Department is rather interesting. Contract purchases were long continued with the Mexican Government after the

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58 Ibid., March 20, 1940.

59 Loc. cit.

60 Loc. cit.

"Mexicanization" of industry had interfered with American interests there. When the Government was criticised for this continuation, a Treasury spokesman on December 30, 1937 implied that the internal affairs of foreign countries and foreign policy were the concern of the State Department and definitely not that of the Treasury.[61]

Senator Townsend filed a statement showing our folly in exchanging valuable goods for the silver which would be worth little whenever our purchase program should cease. There was also a statement filed by Senator Pittman. A masterpiece of turned-about reasoning, it sought to use Chairman Eccles' statements to support the purchases.

Despite the Administration's desires, the bill was favorably voted, fourteen to four, by a committee that would not be railroaded.[62] Senator Wagner, who voted against the recommendation, even predicted passage by both houses.[63]

Finally, over a month later, the bill was reported out of committee on April 30, 1940.[64] The way was cleared for it and it seemed to have very bright possibilities. As expected, it met with sever opposition by both the silver bloc and the Administration's forces. Senator Barkley, evidently hoping to enlist the silverites into service, remarked that

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61 Ibid., December 31, 1937.

62 Ibid., March 21, 1940.

63 Loc. cit.

64 Ibid., May 1, 1940.

"it would be more difficult to sustain the domestic price if the foreign price goes any lower." [65]

Senator Thomas of Utah pitched into the battle on behalf of the bloc.[66] Senator Pittman offered an amendment to the Townsend Amendment.[67] Senator Reynolds, joining Townsend, stated the purchases were of chief benefit to Mexico, "a nation very unfriendly to us." [68] Whereupon, Barkley interposed on behalf of the supposed agricultural benefits derived from sales of surplus farm commodities to the foreign vendors of silver.[69]

Debate continued from time to time, and on the ninth of May the bill came to a vote.[70] First Senator Pittman's amendment was defeated,[71] then the Townsend bill passed.[72] Plans were made in the House by the enemies of the measure to block it as a revenue measure arising in the Senate.[73] When the middle of June had passed with no action in the House on the bill, a Senate Committee atfached it to a tax measure.[74] The effort proved futile, for, as yet, nothing has come of the bill.

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65 Ibid., May 2, 1940.

66 Congressional Record, Vol 86, 76th Congress, 3rd Sess ion, (Washington, D.C.: United States Government Printing Office, 1940) pp. 5393-5400, et passim.

67 New York Times, May 2, 7, 1940.

68 Ibid., May 7, 1940.

69 Loc. cit.

70 Congressional Record, op. cit., p. 5826.

VII THE OPPOSITION OF THE FEDERAL RESERVE BOARD

The principal recent opposition to the silver program has come from Chairman Eccles and his Federal Reserve Board. Putting forward a thirteen-point reform program on December fourth, he urged discontinuance of purchases of foreign silver.[75] Unprecedented, it was issued jointly by Federal Reserve bank presidents, the Board of Governors, and the Federal Advisory Council.

The report, among other things, recommended that monetization of foreign silver should cease. It also sought to remove "the power to issue silver certificates against the seigniorage . . . on previous purchases of silver."[77] It stated that this potential seigniorage issue amounted to $1,500,000,000.

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71 Ibid., pp. 5825-26.

72 Ibid., p. 5826.

73 New York Times, May 10, 25, 1940.

74 Ibid., June 16, 17, 1940.

75 Ibid., Dec. 4, 1940.

76 Ibid., Jan. 2, 1941.

77 Loc. cit.

VIII THE OUTLOOK

Despite the high repute of those who promulgated the resolution, there is little hope that any great change will be effected. On June thirtieth of this year the unusual presidential powers over the monetary system will again terminate. At the same time the domestic silver subsidy will come before Congress as a part of the ending legislation, and this should focus attention upon the entire silver program. However, it would seem unlike ly that the foreign purchase policy would be scrapped at a time when the goodwill of our "neighbors" is more important than ever before. Perhaps, purchases will be limited to silver mined in the Western Hemisphere.[78]

With the great upturn in metal production, accompanied by some price advances, there appears to be little reason for continuing the domestic subsidy. Of course, some states, especially Nevada, mine their silver from straight-silver ores, and this bodes no good. Also, Nevada, along with certain other Western states east of the Pacific tier, probably has a minimum of defense business other than mining. This may prove to be a decisive factor in an inexcusable continuation of domestic purchases.

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78 Since this thesis was written, the domestic silver program has been continued and the foreign has not been halted. (July, 1941)

CHAPTER XI

EVALUATION OF THE SILVER POLICY

An idea of the magnitude of the silver purchases has already been given. In the first chapter the hoard was described in a way that was hoped would emphasize its tremendous, unprecedented size. However, notwithstanding the great magnitude of these acquisitions, the one to three goal of the Silver Purchase Act has not been attained. In fact, because of the devaluation of gold and the vast inflow of that metal, silver constituted only about 16.5 per cent of our monetary precious metal stocks on June 30, 1940. In June of 1933, before the program was really begun, silver comprised about 14.6 per cent of these stocks. The statistical data presented in the Appendix further analyze and describe the accumulations with reference to volume and source.

Many reasons were given why the United States should purchase silver. Practically all of them were premised on the theory that such a program would effect, or help to bring about prosperity. A prominent reason was that the economy suffered from a lack of money. Consequently, prices were low, bringing depression.

An allied reason was that our money suffered from too limited a "metallic base." Some people, particularly those from agricultural regions, wished for inflation and saw silver as

the most feasible means for this. Some saw the depreciated silver as having depressed the currencies of the silver-using countries, thereby reducing their imports, and causing world-wide depression.

I SILVER AND THE PRICE L EVEL

With the New Deal came the popular conviction that if the price level could be raised to its 1926-29 level, then the good times of those years would automatically be present. Thus the usual accompaniment of prosperity was confounded with the cause of prosperity and with prosperity itself.

Silver enthusiasts argued that silver purchases would force prices upward. The price level in the United States and in the world did rise, but indication is lacking that this was due to our acquisitions of the white metal. Our foreign purchases of silver amounted to only 972 million dollars during a period of six and a half years beginning with 1934. This figure is obviously insignificant in comparison with the general world commodity purchases of the period.

Silver was supposed to raise American prices, in particular, by expanding the supply of money. Less than 1.4 billion dollars, however, were injected into circulation from this source during the fiscal years, 1934 through 1940. During the same period the total money in circulation increased by more than 2.1 billion dollars. The silver money quite possibly replaced a similar quantity of the more elastic

Federal Reserve notes. Also, credit is much more important than currency to the price level of our economy.

If it could be shown that the silver program resulted in a higher price level, this would hardly indicate that silver purchases contributed to a return of prosperity. The majority of economists never accepted the price-prosperity theory put forth by the present Administration. Apparently even the New Deal, itself, gave up the theory that a general and artificial rise in prices would correct the maladjustments of our economy and lift it from the stagnancy of depression.

II SILVER AND PURCHASING POWER

The silver interests also claimed that the affixing to silver of a tale value greatly in excess of its non-monetary value would increase the public's purchasing power. On the face of it, it is an intriguing idea. The people would bring thirty-cent silver to the mints and rush away with a great deal more purchasing power. The mafic wands of the federal mints would convert the white metal from thirty cents an ounce to a dollar and twenty-nine cents an ounce.

Right here, however, lay the fallacy. Bona fide purchasing poweris the result ofproductive activity and it is measured ultimately in terms of the goods it will command. Writing up the value of all commodities would tend to cancel itself out in the form of higher prices in general, not in greater economic activity and well-being.

It is true, of course, that the miners would gain in

purchasing power relative to their former position, and because silver is regionally centralized in limited areas, they were benefited in a way comparable, perhaps, to relief workers. It should be borne in mind, though, that silver's status as a by-product would prevent the working of most mines for a mere sale of the argentiferous product. Because the mine and refinery workers constitute but a negligible part of the gainfully employed, and because their region is not of great significance to the business activity of the nation as a whole, little national benefit accrued from this.

III SILVER AS A MEDIUM OF INFLATION

Inflationists such as Senator Thomas of Oklahoma supported the silver program, evidently accepting it as the best means to their ends. The relative importance of credit, however, suggests that the expansion of credit, supposing inflation to be desirable, would be the agency to employ for this. Even if currency were to be used, then the greenbacks would have served quite as well at infinitely less expense. For silver is pure fiat to the extent that its tale value exceeds its commercial value in the world market. Furthermore, silver perhaps constitutes a more treacherous form of inflation or potential inflation than paper. Clever speakers can easily hoodwink many into believing that the country is actually issuing "hard" money and at a profit under the silver purchase program. Further, the seigniorage remains on the books as an invitation to a harassed Congress to pay its bills the easy

way. Fortunately, however, the amount of inflation possible from this source at the present time, so long as the silver dollar is not greatly devalued, is small.

IV BROADENING THE "METALLIC BASE"

While the monetary stocks of gold in the United States were sufficiently ample to secure the nation's money, the argument was often advanced that the silver was needed to "broaden the metallic base." The metallic base was evidently the term applied to the final reserve-base, in terms of which the currency is designated and valued. In this country, then, that base is, and has been for some time, gold. Silver would hardly have sufficed when its monetary value exceeded the market price. No one would reason: "I have faith in this dollar certificate because its silver reserve is worth thirty-five cents on the world market." Probably the real, psychological base is custom and the credit of the United States. Be that as it may, it is certainly not silver.

In fact, the issue of silver could do nothing else but dilute the metallic base so long as the present system is retained. For, the more silver dollars there are outstanding, amounts of other dollars remaining constant, then the less gold there is per dollar. Only by changing to a silver standard, or a bimetallic, or the like, could the United States strengthen its base by acquiring silver.

V PURCHASES FOR THE BENEFIT OF THE SILVER-USING EAST

Arguments that high-priced silver would be a great boon to the silver countries enjoyed currency during the past decade. Yet, as has been observed, only China, Hong Kong, Macao, and Tibet were on the silver standard in 1933. The other countries, Mexico and India, for example, were not on silver, and they did not have a foreign exchange based on silver. All these other countries, even if not on the gold standard proper, valued their currencies in terms of gold. A special case was made of India. The great Indian hoards were pointed out as so much cruelly and radically reduced purchasing power. Yet all authorities, conversant with the Indian way of life, were convinced that these accumulations were not apt to be sold at any price. They are treasures; not temporarily deferred savings.

It is true, of course, that China was on the silver standard. Despite the fact that they argued the silver program would raise the price of world commodities, perhaps high silver would aid the Chinese importers. Even here, however, the silver enthusiasts were doomed to disappointment. For, just as the experts told them, the ultimate payment for imports comes from the sale of exports.

The facts of the case were that our exports to China held up better than they did with the rest of the world,

and Chinese imports in general were reduced by a lesser amount than were world imports. Chinese trade during this period actually increased in terms of total world trade. The statistical evidence of this as well as per cent comparisons appears in table XI of the Appendix.

This was true largely because of the low price of the white metal. Low silver prevented the painful deflation experienced in most other countries. Chinese business continued to be brisk and made for a greater demand for foreign goods. At the same time low silver enhanced the Chinese export market which resulted in a ready means for paying for imports. Consequently, it is easy to understand why our exports to China decreased sharply after the silver purchases forced the price of silver up by more than 100 per cent.

VI THE EFFECT OF THE SILVER PROGRAM ON THE FUTURE OF SILVER

Strangely enough, the long run effect of the United States silver program will probably be advers to the white metal. During the World War period, high silver prices invited demonetization and debasement of silver coinage. Conversely, the olw prices after 1926 encouraged many countries to coin their silver moneys once again. The coins were convenient and they probably retained much of their popular appeal. The high prices caused by the United States silver policy, however, caused a sharp reversal in the new trend back to silver.

Mexico and China furnish excellent examples. Mexico, the world's foremost silver producer, debased her coinage and largely replaced it with paper. China, long the last important stronghold of the silver standard, was driven to adopt managed currency. In 1929, her silver in monetary stocks was estimated at $.35 per capita. In 1939 it was negligible while paper had risen from $.58 to $5.82 per capita. The total monetary silver decreased per capita for the world during this period, despite an increase of over 300 per cent in the United States per capita figures.

It may well be that this time the substitution of more economical money for silver will be permanent. After careful consideration, Professor Murad states that this will probably be true for China. If other countries are able to weather our current storms with somewhere nearly intact monetary systems, the crusaders for the silver cause will probably find that they have wrought irreparable damage to the future of silver.

ABSTRACT

Since 1933 the Federal Government has purchased over two and one third billion fine ounces of silver. This purchase program came about as the result of silver agitation, born of the depression of 1929. The agitation issued in the main from two sources: congressmen from the silver states whose constituents were interested in silver mining, and from the inflationists who saw silver as a means to cheap money. As the magnitude of the silver purchases would indicate, a large measure of success was achieved in spite of the opposition of Federal experts and private economists.

The attainments of the movement were due in no small part to the identification of the demonetization of silver with the primary causes of the depression. The idea that the commodity's remonetization would effect recovery, where not completley the product of wishful thinking, enjoyed some currency as a result of the failure to enquire into the causes of silver's demonetization.

Briefly, gold came to supplant the white metal through a series of chance occurrences. Silver was universal money in the civilized world prior to the sixteenth century when the gold supply of the Western Hemisphere became available. Then, for about two centuries, gold became an additional monetary metal in many countries, with the same free coinage and

legal tender powers enjoyed by silver. People saw no inherent contradiction in having two independently variable standards of value at one and the same time. Recurring monetary difficulties, however, forced changes in bimetallism which eventually eliminated the dual system.

In England, quite by chance, gold was retained as the standard. Later, when England dominated the increasingly important world trade, other countries, following the German example, also adopted some form of the gold standard. The gold movement continued and in 1930 only four countries in the world had a silver standard. Silver by this time, due to greater production and decreasing monetary use, had depreciated in value until its commercial ratio to gold was over 30 to 1 in the first part of the twentieth century.

This depreciation of the white metal served as the mainspring of the demands for remonetization. Producers knew that prior to 1873 silver was worth $1.2929 when delivered to a government mint. Their lobbying for silver, no matter what the particular argument employed, needs no explanation. Debtors and people generally who felt that cheap money would enhance their personal position in the economy were eager for almost any type of money, so long as it was abundant. They were easily lined up with the silverites.

This situation prevailed in the last quarter of the nineteenth century. Out of its pressure came the Bland-Allison and Sherman A cts, under which the government purchased nearly

460 million fine ounces of silver at market prices. The endless chain crisis brought the repeal of the program, while the sound-money victory of 1896, followed by prosperity, ended the agitation.

Although a silver subsidy was railroaded through Congress in 1918 under the guise of a war measure, no real silver movement was again formed until the present one. Out of this one has come a subsidy which makes that of the past century seem insignificantly small. First came the permissive clauses of the Thomas Amendment, passed in May of 1933. Under this the President might have purchased silver in any volume at any price he desired to establish. Actually, no silver was purchased under the Act until after the World Monetary and Economic Conference of June-July of that year.

At this world conference, the Eight-Nation Silver Pact was enacted. Under its provisions, China, India, and Spain agreed not to sell demonetized silver beyond certain amounts, while the United States, Australia, Canada, Mexico, and Peru, as principal producers, undertook to purchase among them thirty-five million ounces each year during the life of the Pact. The Pact was effected for an initial period of four years. When it expired at the close of 1937, no steps were taken to renew it. As an examination of its terms discloses, no country, save the United States, undertook unusual action or refrained from customary procedure.

This agreement made it easy and quite necessary for the

government to purchase domestic silver. The President instituted such a purchase program in his proclamation of December twenty-first, 1933, which rested upon the Thomas Amendment. Renewed from time to time, it resulted in the purchase of all our currently produced domestic silver at prices far above the market.

Not at all satisfied with this subsidy, the silver enthusiasts secured new legislation. First came the ineffective Pittman Amendment to the Gold Reserve Act of 1934. This was followed, because of the intense pressure of such legislators as Dies, Thomas, and Wheeler, by the Administration's compromise measure, the Silver Purchase Act of June, 1934. Under it, some two billion fine ounces of foreign silver have been bought by the Federal Government.

When the President's stabilization fund and his powers to revalue the dollar and to issue three billion dollars worth of greenbacks came to a close in June, 1939, the basis for his special domestic silver purchases also terminated. The Administration was particularly anxious to preserve the devaluation power, and the silver interests saw this as a means to a new and greater subsidy. From April, 1935 to January, 1938, the government had purchased silver at 77.57 cents an ounce. This figure now became th goal of the silverites. They allied themselves with the "hard-money" men. This coalition secured the passage in the Senate of a measure to revoke the devaluation power and to establish a mandatory

price of 77.57 cents a fine ounce for current domestic silver. Later, through a compromise with the silver bloc, the Administration regained the emergency powers in return for the mandatory price of 71.11 cents an ounce for domestic silver.

Numerous attempts by such legislators as Bacon, Barton, and Townsend have failed to halt even the foreign purchases. Equally fruitless has been the opposition of the Economists' National Committee on Monetary Policy, the New York State Chamber of Commerce, and Chairman Eccles and his Federal Reserve Board. The policy is apt to come to the fore this June when once again the special silver provisions expire.

Under the various provisions the government has acquired a tremendous hoard, largely from foreign sources, at artificially high prices. Yet it has not secured an amount sufficient to make the silver comprise 25 per cent of the monetary stocks, the goal expressed in the Silver Purchase Act.

Nor were the claims of the silver enthusiasts fulfilled. Silver purchases failed to increase the supply of money in circulation, appreciably increase purchasing power, or raise the price level. One result, of course anticipated by the silver interests, was the handsome subsidy.

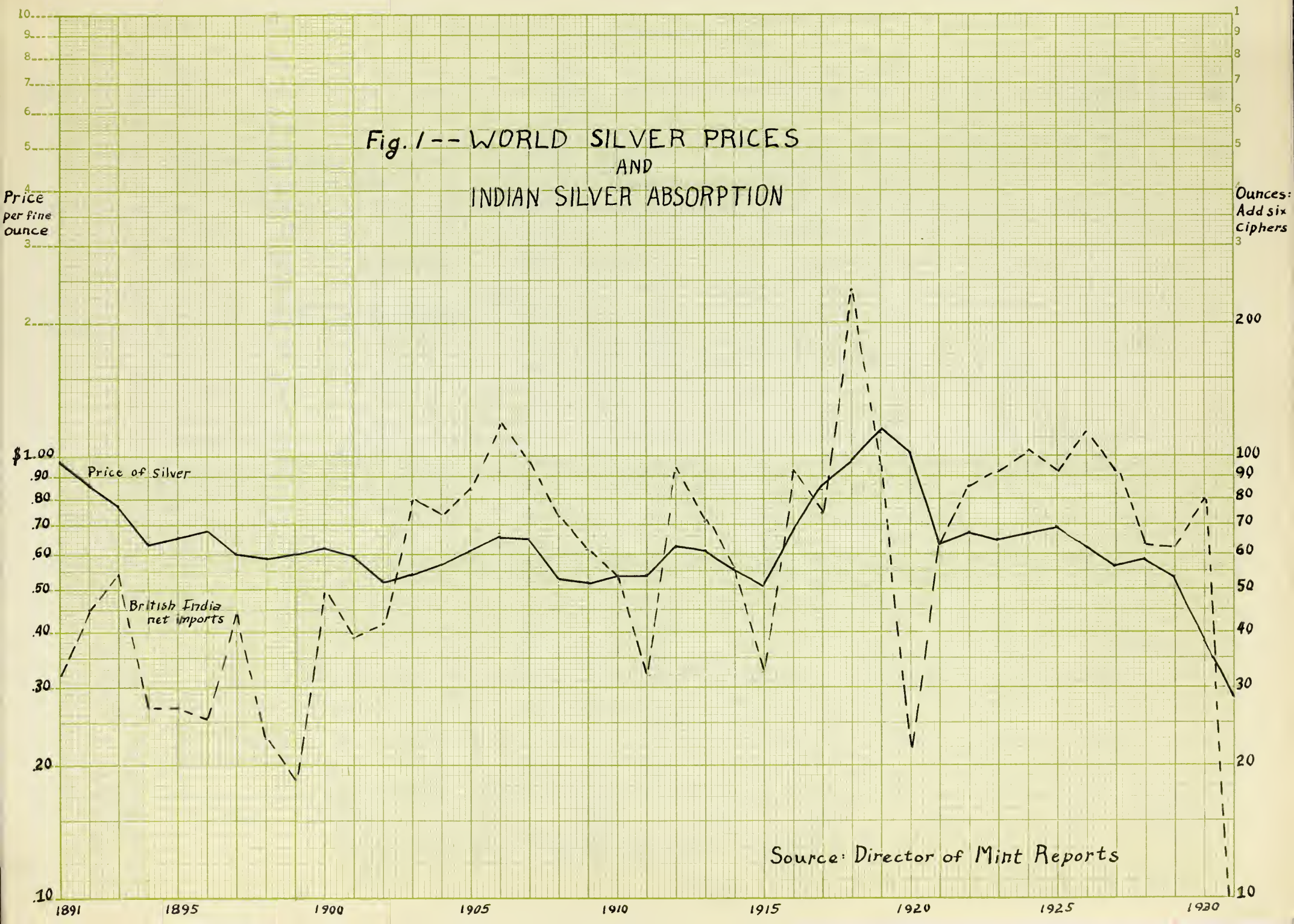
The appreciation of the metal under the policy and its attraction to the United States, caused severe and widespread repercussions everywhere that silver was at all prominent. To China, the hardest-hit nation, it brought deflation, depression, and finally, managed currency. Mexico and many

other countries, when they found themselves suffering from an acute small-change shortage, either eliminated silver entirely from their coinage or greatly debased it.

This will probably mean a permanently curtailed monetary demand for the metal. Also the vast hoard acquired in the course of the program will in all likelihood eventually be added to the commercial supply of the metal. Consequently, it is quite possible that the silver policy, which has brought about so much unnecessary expense and hardship, will have benefited no one in the long run.

APPENDIX

KEUFFEL & ESSER CO., N. Y. NO. 358-64
Semi-Logarithmic, 2 Cycles Short Side × 20 to the inch.
MADE IN U. S. A.



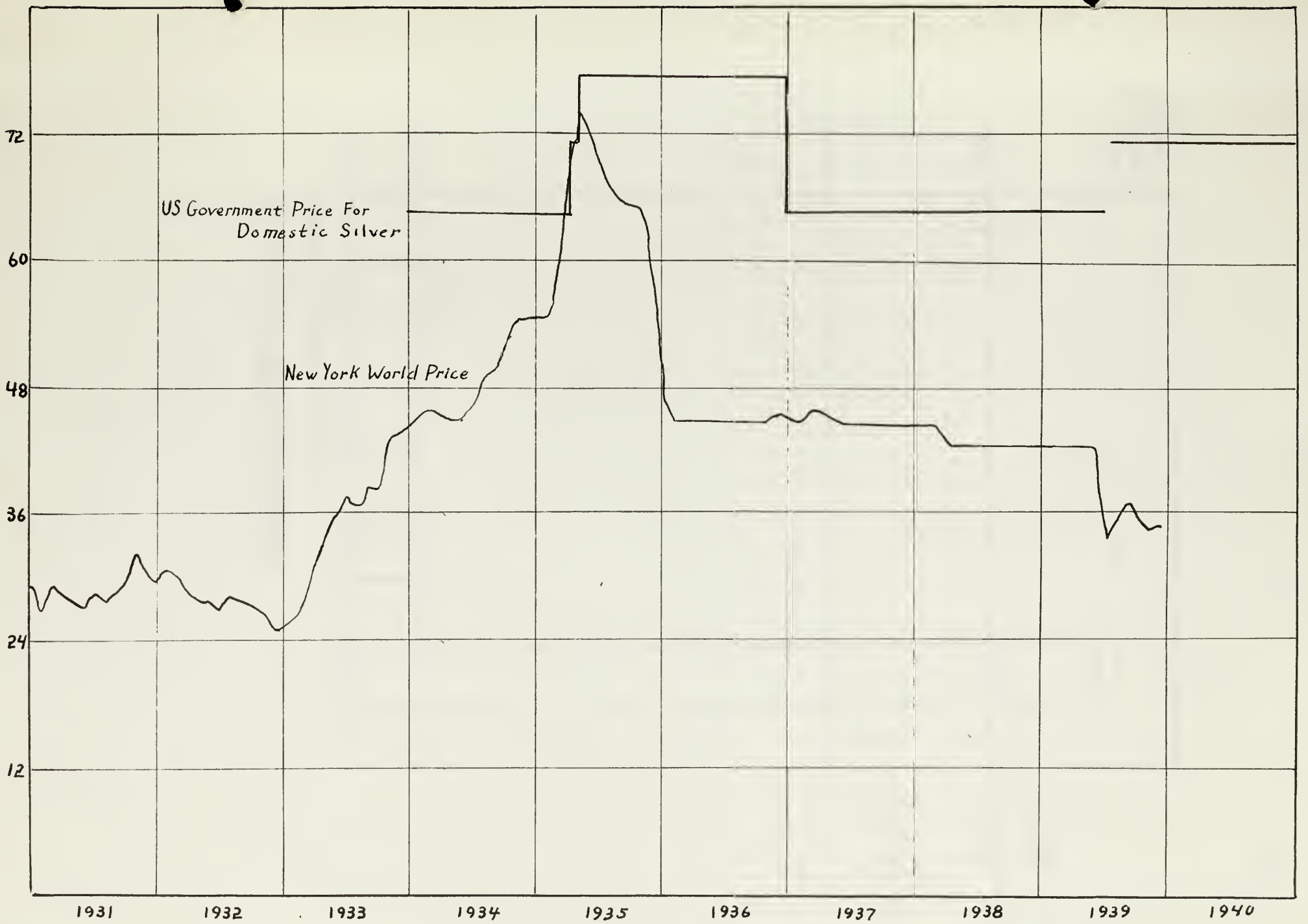
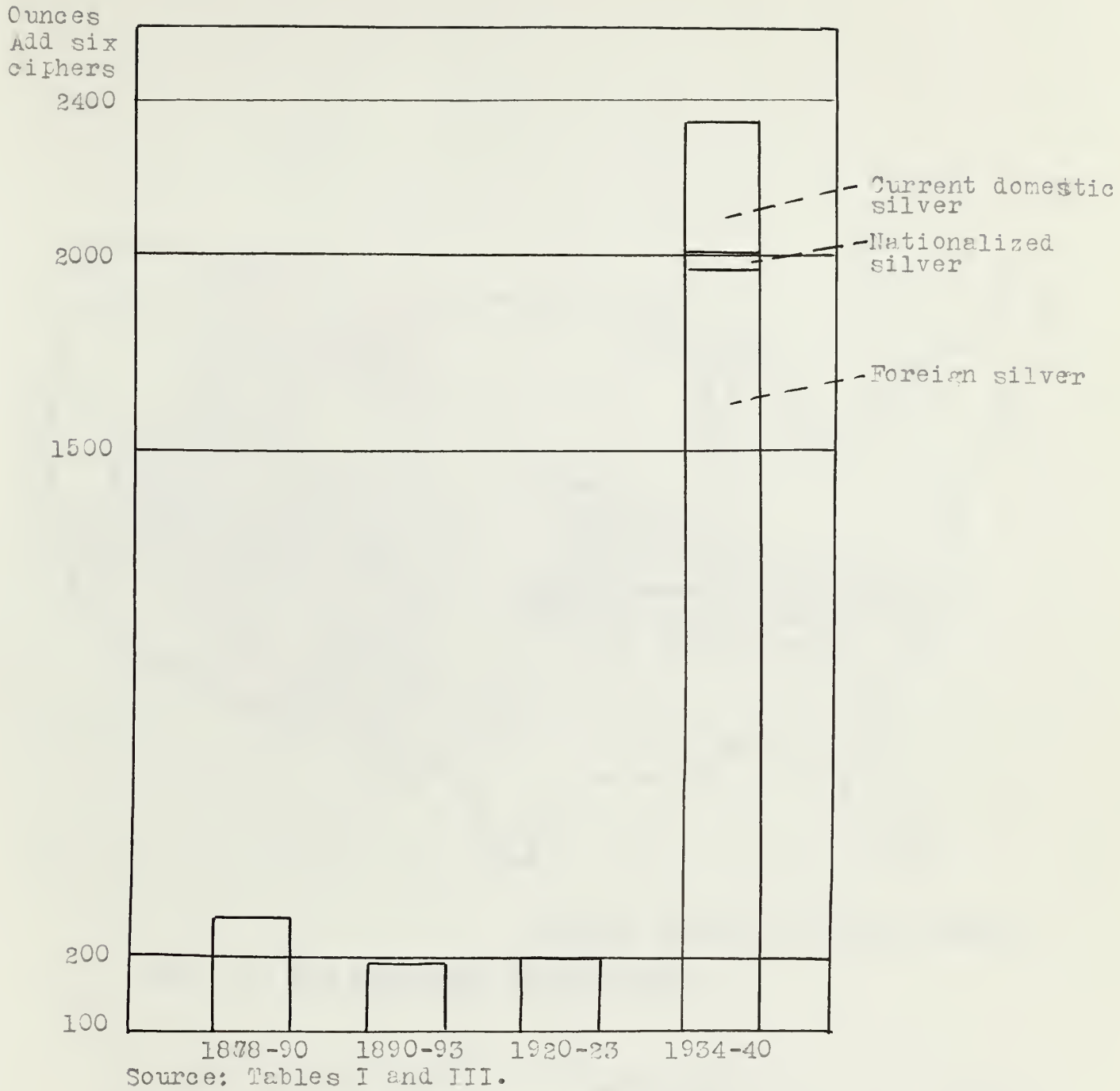


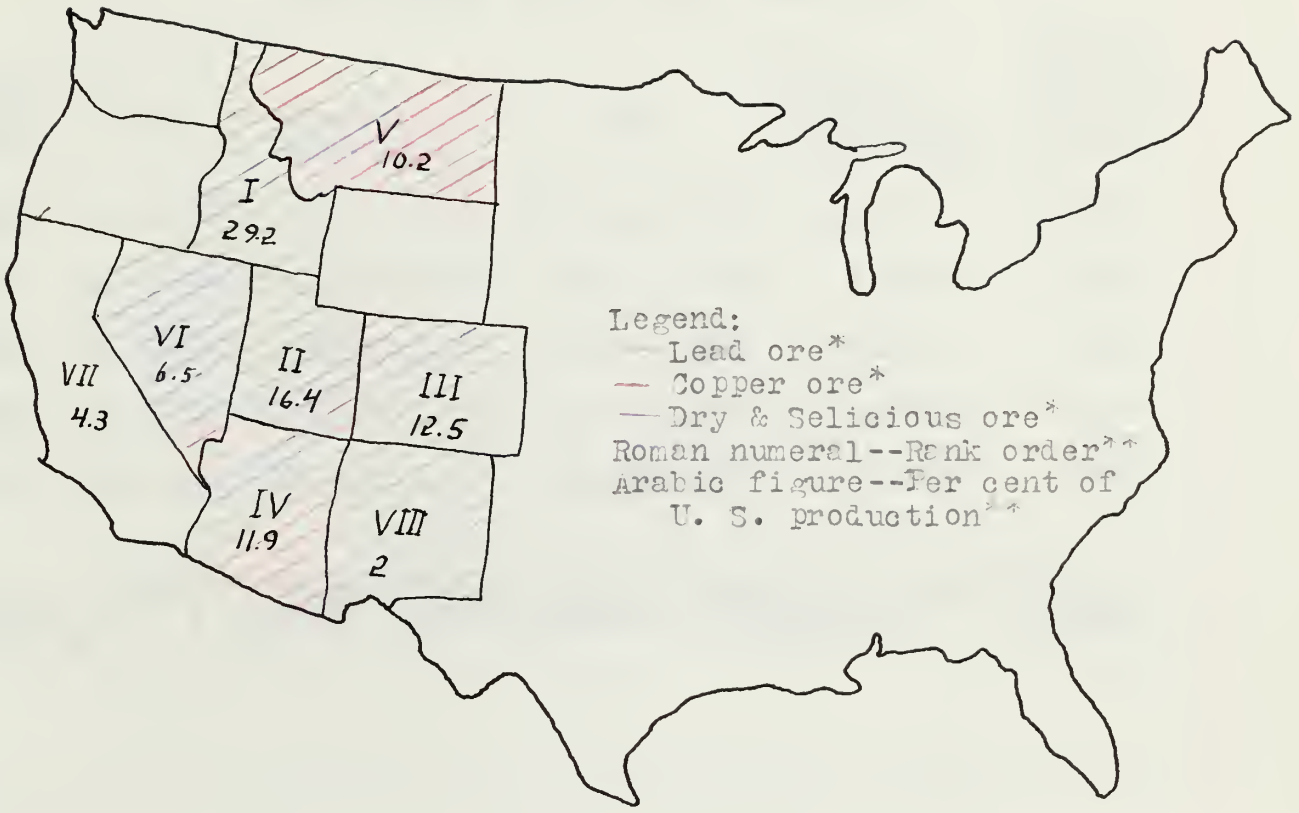
Fig. 2--NEW YORK SILVER PRICES

Source: Handy & Harmon, Annual Reviews



Source: Tables I and III.

Fig. 8 U. S. SILVER PURCHASES



Source: Director of Mint Reports.

Fig. 4-- THE PRINCIPAL SILVER STATES

*Approximate per cent distribution.
**For calendar year 1938.

TABLE I

SILVER ACQUIRED UNDER THE ACTS OF

1873, 1875, 1878, 1890, AND 1918

Date of authorizing act	Fine Ounces purchased	Cost	Average price per fine ounce	Bullion value of a silver dollar
Feb. 12, 1873	5,434,282	$ 7,152,564	$1.316	$1.018
Jan. 14, 1875	31,603,906	37,571,148	1.189	.919
Feb. 28, 1878	291,272,019	308,279,260	1.058	.819
Jul. 14, 1890	168,674,683	155,931,002	.924	.715
Apr. 23, 1918	200,000,000	200,000,000	1.000	.773

Source: Annual Report of the Director of the Mint . . . 1896, p. . Annual Report Director of the Mint . . . 1925, p. .

TABLE II

SILVER DOLLAR SPECIFICATIONS

Authorizing act	Standard weight	Standard fineness (thous.s)
April 2, 1792	416 grains	892.4
Jan. 18, 1837	412.5	900.0
Feb. 28, 1878 (Bland-Allison)	412.5	do.
July 14, 1890 (Sherman)	412.5	do.
March 3, 1891	412.5	do.
April 23, 1918 (Pittman)	412.5	do.
Feb. 12, 1873 (Trade dollar)	420.0	do.
May 12, 1933 (Thomas Amendment)	Can be altered	Can be altered
June 19, 1934 (Silver Purchase Act)	do.	do.

Source: Annual Report of the Director of the Mint . . . 1934, p. 56. Annual Report of the Director of the Mint . . . 1938, pp.

TABLE III

SILVER ACQUIRED JANUARY 1, 1934, TO JUNE 30, 1940

BY CALENDAR YEARS AND SPECIFIED CLASSIFICATIONS

(In millions of ounces or dollars)

Year	Newly Mined domestic[1]		Nationalized[2]		Foreign[3]		Total	
	Ounces	Dollars	Ounces	Dollars	Ounces	Dollars	Ounces	Dollars
1934	21.8	14.1	110.6	55.3	172.5	86.5	304.9	155.9
1935	38.0	27.3	2.0	1. 0	494.0	318.2	534.3	346.5
1936	61.1	47.3	.4	.2	271.9	150.3	333.4	197.9
1937	70.6	54.6			241.5	108.7	312.2	163.4
1938	61.6	42.2			355.4	156.9	417.1	199.1
1939	60.7	39.9			282.8	120.5	343.3	160.4
1940*	31.6	22.5			83.1	30.9	114.7	53.4
Total	345.4	247.9	113.0	56.5	1901.6	972.0	2359.9	1276.6
Av. price[4] fine ounce		72¢		50¢		51¢		54¢
Per cent[5] total oz.		14.6%		4.8%		80.6%		100.0%

Source: Annual Report of the Secretary of the Treasury . . . 1940, p. 133.

1 Acquired by proclamation prior to June 30, 1939. Acquired under Act of July, 1939 thereafter.

2 Acquired under proclamation of August 9, 1934, revoked April 28, 1938.

3 Acquired under the Silver Purchase Act of 1934.

4 Not included in original.

5 Not included in original.

* First six months only.

TABLE IV

COMPONENTS OF THE SILVER MONETARY STOCK

DEC. 31, 1934 TO 1939, AND JUNE 30, 1940
(in millions of dollars)

Year	Silver held in Treasury Securing silver certificates[1]		In General Fund			Silver outside Treasury		Total silver at $1.29 per ounce
	Silver bullion	Silver dollars	Coin[2]	Bullion for re-coinage[2]	at cost	Silver dollars[1]	Subsidiary coin[2]	
1934	211.6	508.4	4.2	8.8	89.3	35.2	305.3	1279.7
1935	576.9	508.7	4.2	.2	262.7	38.4	323.5	1970.1
1936	775.9	505.7	5.7	.3	347.7	41.3	350.4	2402.3
1937	938.8	503.7	5.4	---	428.6	43.3	366.9	2806.5
1938	1137.6	502.7	3.5	.2	535.3	44.4	372.8	3346.8
1939	1298.2	499.0	5.3	---	616.0	48.1	394.1	3790.2
1940	1353.2	498.1	3.6	.8	643.3	49.0	398.6	3959.6

[1] Valued at $1.2929 per ounce.
[2] Valued at $1.28 plus per ounce.

Source: Annual Report of the Secretary of the Treasury . . . 1940, p. 133.

TABLE V

FISCAL YEAR END MONETARY STOCKS

Year	Gold (Thousands of dollars) Net additions	Gold (Thousands of dollars) Stock at end of year	Silver (Thousands of ounces) Net Additions[1]	Silver (Thousands of ounces) Stock at end of year	Silver* as per cent of gold
1933	398,958	4,317,554	6,036	27,757	.8%
1934	727,627[1]	7,856,181[2]	35,241	62,998	1.-
1935	1,259,462	9,115,643	283,060	346,058	4.9
1936	1,492,774	10,608,417	730,807	1,076,865	10.6
1937	1,709,854	12,318,271	206,624	1,283,489	13.4
1938	644,683	12,962,954	395,043	1,678,532	16.6
1939	3,147,125	16,110,079	444,421	2,122,953	17.1
1940	3,853,012	19,963,091	242,216	2,365,169	15.2
Total	13,233,495		2,343,445		22.8

* Valued at monetary value of $1.2929 per fine ounce. This column not a part of original table.

[1] Exclusive of newly acquired bullion contained in manufactured coin.

[2] Includes the increment of approximately $2,811,000,000 on the government's holdings.

Source: Annual Report of the Secretary of the Treasury . . . 1940, p. .

TABLE VI

WORLD SILVER PRODUCTION, 1930-38

(In thousands of ounces)

Year	World	United States	U.S. as per cent of world	Mexico	Canada	Peru	Australia
1930	248,708	50,627	20.4%	105,411	26,436	15,500	8,888
1931	195,920	30,822	15.7	86,065	20,558	10,948	7,772
1932	164,893	23,832	14.5	69,303	18,356	6,735	8,436
1933	169,159	22,821	13.5	68,101	15,187	6,760	10,540
1934	190,398	32,487	17.1	74,145	16,415	10,781	10,516
1935	220,704	45,013	20.3	75,589	16,619	17,433	11,585
1936	253,696	63,351	25.0	77,464	18,335	19,901	11,759
1937	274,538	71,299	25.8	84,681	22,683	16,994	14,291
1938	267,913,	61,689	23.0	81,019	22,157	20,435	14,537

Source: Data taken from that appearing in annual reports of the Director of the Mint for the year following the year in the above table.

TABLE VII

SILVER PRODUCTION IN SELECTED STATES*

Rounded Index Numbers

1928 equals 100

Year	Ariz.	Calif.	Col.	Idaho	Mont.	Nev.	N.M.	Utah
1928	100	100	100	100	100	100	100	100
1929	119	82	101	106	118	89	115	104
1930	75	98	110	108	80	79	126	81
1931	62	53	54	83	38	45	116	45
1932	33	35	38	74	22	24	120	43
1933	33	25	49	74	33	19	126	30
1934	64	55	80	84	34	54	108	43
1935	88	73	111	115	76	77	125	49
1936	130	139	146	166	108	92	135	63
193	145	191	143	218	110	80	152	71
1938	114	183	178	206	63	77	136	58
1939	113	177	187	193	84	85	136	62

* These eight states in 1928 accounted for 85 per cent of the total United States output; in 1938, 93 per cent of the total. For per cents and rank order, see Figure 4.

Source: Calculations from data taken from annual reports of the Director of the Mint for years immediately following each year presented here.

TABLE VIII

CAPITAL CONTROL OF MINE AND REFINERY PRODUCTION OF SILVER IN 1929

Producing countries grouped to show nationality of capital control	Mine production			Refinery production	
	In millions of ounces	As per cent of domestic output	As per cent of world output	As per cent of domestic output	As per cent of world output
Controlled by U.S.A. capital:	172.7	100.0	62.2	205.9	72.8
United States	61.2	100.0	23.4	100.0	52.1
Mexico	81.0	74.5	37.6	95.6	20.7
Canada	7.8	33.8	3.0	----	----
Peru	18.8	87.4	7.2	----	----
Central America	2.5	89.0	1.0	----	----
Chile	1.1	82.5	.4	----	----
Others	.3	----	.1	----	----
Controlled by British capital:	56.8		21.7		11.4
Canada	15.3	66.0	5.7	100.0	5.1
Mexico	21.5	19.8	8.2	----	----
Australasia	10.4	100.0	4.0	100.0	3.3
India and Burma	7.3	100.0	2.8	100.0	2.6
Cape Colony and Transvaal	1.0	100.0	.4	100.0	.4
Others	1.3	----	.5	----	----
Controlled by German capital:	5.1		1.9		10.0
Germany	5.1	100.0	1.9	100.0	10.0

Source: Leong, Silver (Washington: The Brookings Institute, 1933), p 70. Here source is given as: W.P. Rawles, The Nationality of Commercial Control of World Minerals, 1933, pp. 31-34.

TABLE IX

WAR DEBT PAYMENTS IN SILVER

Country	Fine ounces	Value at 50¢/ounce
Czechoslovakia	359,010.49	$ 179,505.25
Finland	296,631.88	148,315.94
Great Britain	20,001,036.84	10,000,518.42
Italy	2,000,041.52	1,000,020.76
Lithuania	19,980.70	9,990.35
Rumania	58,122.92	29,061.46
Total	22,734,824.35	11,367,412.18

Source: Annual Report of the Secretary of the Treasury . . . 1933, p. 27.

TABLE X

ESTIMATED SALES OF DEMONETIZED SILVER, 1920-32

ACCORDING TO COUNTRY OF ORIGIN

Year	United Kingdom	Other European Sellers	British India	French Indo-China	Other Countries	Total, all Countries
1920	----	27.0				27.0
1921	-6.5	30.0[1]				36.5
1922	24.0	19.0				43.0
1923	25.0	20.0				45.0
1924	2.0	18.0				20.0
1925	7.0	23.0				30.0
1926	.7	7.0[2]				7.7
1927	1.2	8.0[2]	9.2			18.4
1928	5.5	32.0[2]	22.5			60.0
1929	10.0	10.0[2]	35.0	12.0		67.0
1930	----[3]	22.0[2,3]	29.5	20.0		71.5
1931	----[3]	----	35.0	6.4	27.4[4]	68.5
1932	----	11.6[5]	24.0	10,0	1.0[6]	46.6
Total	81.9	227.6	155.2	48.4	28.4	541.2

Footnotes appear on following page

Source: H. M. Bratter, The Monetary Use of Silver in 1933 (Washington, D.C.: Bureau of Foreign and Domestic Commerce, 1934), p. 6.

TABLE X, Continued

Footnotes:

[1] Germany accounted for 8,000,000 of this total.

[2] Of the 79,000,000 ounces reported as sold by Europe from 1926-1930, inclusive, 66,000,000 ounces came from France and 13,000,000 ounces came from Belgium.

[3] In 1930 and 1931 additional supplies came to London from Europe and from the debasement of British coinage. These were all used in the manufacture of coin from other counties and are not shown in this table.

[4] This includes 20,000,000 ounces from Siam, 4,200,000 ounces from Mexico, and 2,900,000 ounces from Egypt.

[5] This came entirely from the Union of Soviet Socialist Republics.

[6] This amount came from the Near East.

TABLE XI

CHINESE TRADE AND THE PRICE OF SILVER

Year	Index of silver prices*	Chinese imports as per cent of world imports	Index of Chinese imports from U.S.*	Index of total U.S. exports*
1925	113.3	2.5	91.8	99.0
1926	102.0	2.7	109.0	97.0
1927	92.9	2.1	88.2	99.0
1928	95.5	2.5	111.0	103.0
1929	87.0	2.3	133.7	105.2
1930	63.0	2.1	81.4	78.5
1931	47.5	2.4	88.6	50.4
1932	46.2	2.6	70.0	33.8
1933	57.0	2.3	52.9	35.0
1934	78.5	1.8	42.3	44.5
1935	105.0	1.6	49.2	48.0
1936	73.7	1.3	42.4	52.0
1937	73.5	1.0	42.2	70.0

* Average of years 1925-28 equals 100.

Source: Trade statistics gathered from Commerce Yearbooks serve as bases for columns 2, 3, and 4. Silver price index is calculated from figures appearing in annual reports of the Director of the Mint.

TABLE XII

DISTRIBUTION OF THE WORLD'S SILVER

(In millions of ounces)

	Jan. 1, 1933	Net change six years	Jan. 1, 1939
A. Monetary			
United States	640	1,935	2,575
China	1,700	1,120	580
India	1,050	110	940
Other countries	1,550	40	1,510
Total monetary	4,940	665	5,605
B. Non-monetary			
United States	1,000	160	1,160
China	800	---	800
India	3,300	210	3 ,510
Other countries	1,500	150	1 ,650
Total non-monetary	6,000	520	7,120
C. Permanently lost, or destroyed, or unaccounted	3,946	175	4,131
Grand total production since 1493	15,486	1,360	16,846

Source: D.H. Leavens, Silver Money (Bloomington, Indiana: Principia Press, Inc., 1939), p. .

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